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- News
- Publications
- Authors
- Directory
- Jobs
- Events

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- Antigua
- Austria
- Bahamas
- Barbados
- Belize
- Bermuda
- British Virgin Islands
- Cayman Islands
- Curacao
- Cyprus
- Gibraltar
- Guernsey
- Hong Kong
- Ireland
- Isle of Man
- Jersey
- Labuan
- Liechtenstein
- Luxembourg
- Madeira
- Malta
- Marshall Islands
- Mauritius
- Netherlands
- Nevis
- New Zealand
- Panama
- Samoa
- Seychelles
- Singapore
- St Vincent & The Grenadines
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African Due Diligence

By L Burke Files, DDP, CACM, President Financial Examinations & Evaluations, Inc (12/05/2015)

Last month, I saw an advert for a firm who said ‘They know Africa’ and that they could help with any research in Africa. This sort of puffery for anyone who has spent time in Africa is laughable, but for those who are not familiar with Africa, let me share with you a few facts.

Population: 1.2 billion - about four times the population of the United States and about twice the population of Europe. The distance from Cape Town, South Africa to Tangiers, Morocco is approximately the distance between Los Angeles, CA and London, United Kingdom. The continent’s systems of law include, Common Law, Civil Law, Civil Law and Napoleonic Code, Civil Law blended with Sharia Law, Customary Law blended with Sharia Law, Dictator Laws, Tribal Law, Jungle Law, and some places really have no laws at all.

The most common languages spoken in Africa are, in order of the number of speakers; Arabic, Swahili, Housa, English, Amharic, and French. There are another 1500 to 2000 languages spoken in Africa.

Most of the public records throughout Africa’s nations are not computerised, though the public records are generally in good order. However, the public records may or may not be public on the day you arrive to look at the records. If the keeper of the records does not know you, you may not get the records, but a story as to why they are not available. If you are not known, you just may not be trusted, and will not be granted access.

In many parts national identity ranks a distant third, behind family and tribe. Family and tribe know no boundaries. Property and land ownership registries while working well in the developed cities can be found wanting or totally lacking on the rest of the continent. Yet, everyone in a community knows whose land belongs to whom and where it begins and ends. This, is a hint at the key to gaining actionable information in Africa. Africa is a place that requires real knowledge not puffery. There is a veil of organisation laid over a delicious smoky maze of chaos.

If you are seeking information on people, companies or projects there is no one or ten computer databases you can use. Those computer databases that claim to have information are poor at best. I am not saying they are bad, but their coverage is poor. If you wonder why, go back and re-read the parts about law and languages – no computer database can hope to provide any comprehensive converge. The best data seems to be the local credit reports, and I would not trust them at all. Real information comes from people on the ground in the county and city of interest. I often find that while one source of information is good, two or more are better. The layers of information help to provide colour and depth to the interrelationships of the people, to the facts, and commerce. This layering of information gathering aids in gaining the knowledge to assess the risks associated with your objectives.

There is also the matter of corruption. The regulatory and civil institutions of the west while aped in most countries have failed to take hold. There are many reasons, chiefly the limited incomes of the countries combined with what people in power are paid and a general laissez-faire approach on the issue. It is easy to understand when a customs

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official is paid the equivalent of US\$80.00 per week that they will use their professional power for personal gain. If the government pretends to pay them, they will pretend to listen to the government. This does not relieve us westerners from our domestic legal burdens in participating in the exchange of gifts, it just makes that which is complicated, complex.

The biggest issues for the continent are the strains put upon the developing cities as people are leaving the country side for employment in the cities. Urbanisation of Africa is at about 45 per cent of the population, about where the US was in 1940, by 2030 it is estimated that 60 per cent of the population will be in urban areas. This is roughly equivalent to where the US was in 1965. Social issues, cultural issues, language issues are all added to the urban infrastructures being stretched well past design limits. Power, water and sewage connection may follow construction but will not arrive before construction.

We are finishing our 7th case in 12 months in Africa, mostly due diligence matters. Each matter from small to large has been like an onion. Each time a layer is peeled back you face another similar layer. We have run across saints, sinners and some fixers that just might be quick enough to get a herring away from a wet seal.

So if you are conducting due diligence in Africa, expect to pay less per hour but you will have to investment in many more hours of work. Look for several sources, not one trusted source. Just think what research and public recorders were like in 1970s. You had to go and dig and call in local talent. Africa is booming. So as the bad joke goes, when mining it is important to get the gold and not the shaft. Real knowledge is what separates them.

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