A Speech on the Occasion of the Launch of the Institute of Directors of Malawi,

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Mr. Chairman, distinguished guests, ladies and gentlemen

In the first place, I should like to thank the interim Committee of the Institute of Directors of Malawi for inviting me, through the Global Corporate Governance Forum, to come to this beautiful Country, to participate in the launch of the Institute of Directors of Malawi.

Secondly, I wish to convey to you, Mr. Chairman, and the members of IoD Malawi, warm greetings from Washington DC, from the Global Corporate Governance Forum (GCGF) in general and the Private Sector Advisory Group, in particular, which I am representing here today.

As many of you will no doubt be aware, the GCGF was co-founded by the World Bank and the Organization for Economic Cooperation and Development (OECD) in 1999. The GCGF is an IFC multi-donor trust fund facility, located in the IFC/World Bank Corporate Governance Department. Through its various activities, the Forum aims to promote the private sector, as an engine of growth, reduce the vulnerability of developing and transition economies in financial crises, and provide incentives for corporations to invest and perform efficiently in a socially responsible manner.

The Forum has a global mandate to support, with practical assistance, Corporate Governance reform in developing countries, such as Malawi. A key area of the Forum’s priority right now, is Africa. I need to make clear the point, though, that the Forum’s support, is not rendered through funding per se, but in the form of technical, material and expertise, relevant to each country’s reform needs. This will explain the presence of the Consulting Personnel such as Alison and Sarah who have been seconded and paid for by the GCGF.

I want to caution however, that Corporate Governance is not an overnight wonder. It is a journey and, sometimes, a slow journey which will present many challenges as well as opportunities. Corporate Governance is not about compliance to a set of rules and regulations alone, it should, preferably, be about putting in place better informed boards and improving the quality of corporate and management performance, in all our economic organizations and other institutions.

Corporate Governance is not about quick fixes, but a methodical and patient process that must be relevant and appropriate to each country’s stage of development.
In my own Country, Zambia, for instance, we launched IoD Zambia ten years ago, in July 2000, with the assistance of the commonwealth Association for Corporate Governance. It took us over two years to get IoD Zambia to be fully established and to become financially independent.

In the last few years we have managed to develop a strong and sustainable Director Training Programme which now embraces both the private sector as well as the public sector. We have managed to train over 1,000 directors and, thereby, contributing significantly to boardroom performance, in various companies and organizations.

Director Training has been given top priority in Zambia, in the last few years, because it will be appreciated that good Corporate Governance starts with individual directors in the boardroom.

Remember that Bob Garratt, one of Britain’s eminent authorities on Corporate Governance, told us in one of his books that “the fish rots from the head”. And if the head begins to rot, you can guess what will very quickly happen to the rest of the body!

Against this background, I should now like to reflect on the role and the impact of Corporate Governance on sustainable development in emerging economies such as Africa.

During his state visit to Ghana, in July, 2009, the president of the United States of America, Barrack Obama had the following to say on the issue of development in Africa.

“Africa’s future is up to Africans”. “Development depends upon good governance. That is the ingredient which has been missing…..” That is the change that can unlock Africa’s potential….it is a responsibility that can only be met by Africans”. These words ring true for each and every country on the African continent. I will adopt these famous and important words as a foundation for my discussion of the governance equation in Africa.

What then is governance?

“It is the manner in which power is exercised in the management of economic and social resources for sustainable human development”.

Governance has in the last 20 odd year’s assumed critical global importance. It is a vital ingredient in the maintenance of a dynamic balance between the need for order and equality in society, the efficient production and delivery of goods and services, accountability in the use of power, the protection of human rights and freedom, and, the maintenance of an organized corporate framework within which each citizen can contribute fully towards finding innovative solutions to common problems.

Corporate governance, on the other hand, refers to the manner in which the power of an organization is exercised in the stewardship of the organization’s total portfolio of assets and resources with the objective of maintaining and increasing shareholder value with the satisfaction of other stakeholders in the context of the organization’s mission and objectives.

Corporate Governance is the system by which organizations are governed, managed and controlled.

Good Corporate Governance seeks to promote the following ideals:

- Efficient, effective and sustainable organisations that contribute to the welfare of society by creating wealth, employment and solutions to emerging challenges.
- Responsible and accountable organisations
- Legitimate organisations that are managed with integrity, probity and transparency.
- Recognition and protection of stakeholders rights
- Development of good corporate citizens exercising sound corporate social responsibility.

Africa in general, apart from South Africa, is a continent that has historically attracted very little investment. It is hoped that improved corporate governance, especially when done in the context of wider economic and systemic governance, will enhance investor confidence both domestic and foreign.

For purposes of my discussion, I will focus on the SADC region, which embraces 15 countries in the lower part of sub Saharan Africa. The SADC region includes, in alphabetical order; Angola; Botswana; Congo DR; Lesotho; Madagascar; Malawi; Mauritius; Mozambique; Namibia; Seychelles; South Africa; Swaziland; Tanzania; Zambia and Zimbabwe.

The GCG Forum states in its mission statement, that, and I quote:

“Corporate Governance has become an issue of worldwide importance. The corporation has a vital role to play in promoting economic development and social progress. It is the engine of growth internationally and, increasingly responsible for providing employment, goods and services both in the public and private sectors, as well as infrastructure.”

The efficiency and accountability of the corporation is now a matter of both private and public interest, and governance has, thereby, come to the top of the international agenda.”

This statement exemplifies the now indisputable position that Corporate Governance has assumed in the economic development of nations of the world, with particular significance for the emerging and developing economies of the third world in general and our region in particular.

Good Corporate Governance has become imperative as a beacon to attract investors - both local and foreign – and assure them that their investments will be secure and efficiently managed in a transparent and accountable process.

Corporate Governance has become a necessary lever in creating competitive and efficient companies and business enterprises and in enhancing the accountability and performance of those entrusted to manage corporations.

Without efficient companies or business enterprises, our countries in the SADC region will not create wealth or employment. Without new investments our companies will stagnate and collapse. And if business enterprises in Malawi, Mozambique, Zambia, Namibia, Angola, Swaziland and in the entire region do not prosper, there will be no economic growth; no employment; no taxes paid and, invariably, the countries of our region will not develop to the best of their potentialities.

Looking at our region, through the lenses of SADC, we can see that the SADC vision is one of a common future, a belief in a regional community that will ensure economic wellbeing; improvement of the standards of living and quality of life; freedom and social justice, peace and security for the peoples of southern Africa.
This shared vision is anchored on the common values and principles as well as the historical and cultural affinities that exist between the peoples of southern Africa. Some of the objectives of SADC as stated in article 5 of the SADC treaty are:

To achieve economic development and economic growth, alleviate poverty, enhance the standard and quality of life of the people of southern Africa and support the socially disadvantaged, through regional integration.

SADC also seeks to promote self-sustaining development on the basis of collective self-reliance and the interdependence of member states.

Quite clearly, the goals of SADC and the objectives of Corporate Governance, sound all too clearly, like two sides of the same coin. The two, therefore, possess a common destiny with common ideals.

When we examine the current status of Corporate Governance in the 15 countries in southern Africa that make up the SADC region, we observe that there are some sharp disparities between the levels of economic development attained and the levels of new investments flowing into the various countries of the region.

It is also curious to observe that there are also significant disparities in the achieved levels of Corporate Governance amongst different SADC member countries.

Interestingly, countries that have attained higher levels of Corporate Governance reform such as South Africa, Zambia, Namibia, Mauritius, Seychelles, Botswana, Mozambique and, now, Malawi, are also exhibiting growing levels of investor confidence and economic growth.

Another pertinent and relevant observation in this regard, are the findings of the now widely acclaimed Ibrahim Index of African governance, managed by the Mo Ibrahim Foundation, which seeks to evaluate the levels of good governance in 48 sub Saharan countries using 5 governance categories, namely:

1. Sustainable economic opportunity;
2. Human development;
3. Safety and security;
4. Rule of law, transparency and corruption; and
5. Participation and human rights.

Once again, it is interesting to observe that the Mo Ibrahim Index has continued to rank Mauritius, Seychelles, Botswana, South Africa, Namibia, Malawi, Madagascar and Zambia among the top 20 countries. This is a very similar profile to that observed with regard to the level of development of Corporate Governance, in the region.

To my mind, there can be little doubt that there is a very strong correlation between good public governance, good Corporate Governance and the levels of economic advancement achieved by the countries of our region.

Out of the 15 SADC member countries, South Africa appears to present the most instructive case study, in terms of its governance track record since the birth of the new South Africa, in 1994.

The following points are significant:

1. The current constitution of South Africa which was adopted by the constitutional assembly on 11th October, 1996, certified by the constitutional court on 4th December, signed by President Nelson
Mandela on 10th December and came into effect on 4th February, 1997. Since its adoption, it has exhibited great credibility and can be said to be well on the way to standing the test of time!

2. Since the historic elections of 1994, South Africa’s democratic system has proved robust and has enjoyed universal acceptance amongst all its peoples and political stakeholders. Not a single election has been disputed.

3. South Africa’s economy has been growing since September, 1999. The country’s annual economic growth rate has averaged over 4%. In the decade prior to 1994 economic growth averaged less than 1% a year.

4. Bold macro-economic reforms have boosted competitiveness, growing the economy, creating jobs and opening South Africa to world markets.

5. Foreign investor confidence in South Africa has been riding high, judging by the country’s net investment inflows since 2005.

6. According to the Reserve Bank’s quarterly bulletin, South Africa’s net investment inflows – including FDI and portfolio inflows or short term foreign investment in South Africa equities and bonds, came in at US$13.7 billion surplus for 2005, the highest on record.

7. These impressive economic achievements have in large measure been attributable to South Africa’s very sound economic and Corporate Governance track record since 1994.

Given this analysis, what then should be the way forward for our region?

It is my humble view that economic integration in the SADC region will remain lopsided for as long as there exists vast imbalances in the economic development patterns of the member countries. There will be need to level the playing field, as it were.

It is also my view that Corporate Governance can be used as an effective tool in bringing about a level economic playing field in our region by making each country an attractive investment prospect.

As a region, therefore, our governments should be concerned with the need to establish appropriate legal, economic and institutional environments, that will facilitate and allow business enterprises to grow, thrive and prosper as institutions for maximizing shareholder value, while, at the same time, being conscious of providing for the wellbeing of all other stakeholders and society as a whole.

Our governments should take deliberate measures to put in place and maintain enabling environments in which efficient and well managed companies can thrive.

The role of the IoD in this regard is to promote high standards of Corporate Governance in both the private and public sectors, through education, training, and participation at relevant fora, thus, ensuring the highest professional and ethical standards amongst directors and the boards on which the directors serve.

The new Institute of Directors of Malawi should, therefore, encourage boards of directors to govern corporations in a way that maximizes shareholder value and in the best interests of all stakeholders, including employees, customers, suppliers, financiers, etc.
IoD Malawi should now set a goal to establish a sustainable professional Director Training Programme in Malawi, as a matter of priority. We in Zambia, who have been successfully running Director Training Programmes for several years now, will be only too willing to assist.

The GCGF has developed significant tools to guide reform implementation, in this regard, which are being widely used. These include:

1. Developing Director Training Organizations,
2. Developing a Corporate Governance Code.
3. Corporate Governance Board Leadership Training Resource Kit;
4. Guidelines for dealing with Corporate Governance Disputes through mediation;
5. Guidelines for Corporate Governance in co-operatives
6. Training materials for journalists.

I would encourage you to make full use of these tool kits in the months ahead. You will find them extremely useful and instructive.

In addition to these initiatives by the GCGF, the Organization for Economic Cooperation and Development, OECD has over the last two years established a sub regional policy dialogue focusing on the challenges faced by governments in the region in promoting good Corporate Governance within their State Owned Enterprises (SOE).

The goal is to develop a sustainable Corporate Governance Reform Programme in the SOE’s of our region. The last meeting in this regard was held in Paris in March this year, which I attended.

IoD Malawi will do well to stay abreast of all these exciting developments as you work towards consolidating the growth and development of Corporate Governance in Malawi.

Here again, my colleagues and I in the Private Sector Advisory Group of the GCGF will only be too delighted to offer you our expertise and support. Since I reside next door, in Zambia, I am only a phone call away from you.

Allow me to conclude, Mr. Chairman, by once again thanking IoD Malawi for having extended an invitation to me to be part of this ground-breaking ceremony to mark the official launch of IoD Malawi here in the beautiful city of Blantyre.

I thank you.

Patrick D. Chisanga
Blantyre,
8th June, 2010.