

**GETTING DOWN
TO BUSINESS:
LESSONS FROM
THE APRM**

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OVERVIEW

- **What is the APRM?**
- **Why is Corporate Governance important?**
- **The African Experience**
- **Findings of select themes from the Report:**
 - Business Environment
 - Corporate Governance Systems
 - Stakeholder Engagement
 - Informal sector
- **Concluding Observations**



THE AFRICAN PEER REVIEW MECHANISM

- Voluntary, continental initiative to promote good governance, organised into four themes: political governance, economic governance, corporate governance and socio-economic development.
- Involves a consultative, internal assessment of the signatory countries.
- This is followed by a review undertaken by a panel of continental experts.
- An extensive Country Review Report is produced from these processes.
- This is then discussed at a Forum of Heads of State.
- The entire process is intended to promote governance reform.



WHY CORPORATE GOVERNANCE?

- Africa's recent growth has been impressive, with Zambia growing by an average of 5.6% a year between 2000 and 2010.
- However, doubts remain about its developmental impact.
- Simultaneously, Africa is on a journey of democratisation and governance reform.
- The conduct of business is coming sharply into focus.
- What standards of behaviour are demanded? What standards of behaviour should be required? How do they relate to the imperatives of business growth and economic expansion?
- *This report examines these themes in light of the CRRs from the six Southern African countries that have thus far undergone review – Lesotho, Mauritius, Mozambique, South Africa, Tanzania, Zambia.*



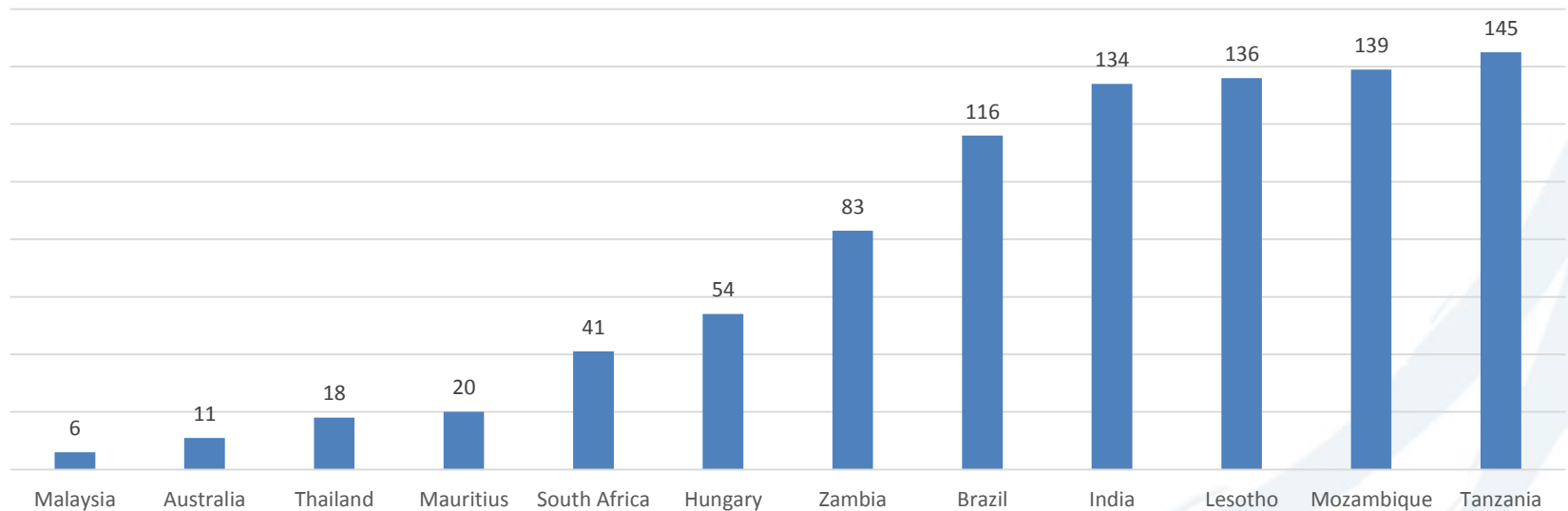
THE AFRICAN EXPERIENCE

- African economies are a combination of historical underdevelopment and rapid growth – some exceptions represented by the more mature economies such as South Africa and Mauritius.
- Small domestic private sectors, typically dominated by SMEs – relatively few large companies, although these are appearing.
- State-owned enterprises are important players in economies.
- Extensive informal sectors, frequently absorbing a majority of the workforce, along with subsistence/survivalist activities.
- Foreign investments are particularly active in extractive industries, but are expanding in other areas.
- Considerable political tension around economic activities, for example, the view that foreign entrepreneurs have usurped opportunities of their local counterparts, or that foreign investors enter ‘via State House’.
- Large information gaps in what we know about Africa’s economies: *‘Although most Zambian workers are involved in the MSMEs, little information is available about these businesses.’*



BUSINESS ENVIRONMENT (1)

- Despite its growth, Africa is not an easy environment to operate in, albeit with considerable variation across countries.
- This is well illustrated by the *World Bank/IFC Doing Business Index 2014*:





BUSINESS ENVIRONMENT (2)

- The difficulties marking the business environment reflect structural and institutional limitations.
- APRM identifies in particular poor infrastructure, inadequate skills and education, limited markets, and lack of credit.
- Legal systems and civil services often lack capacity to service businesses' needs.
- They also reflect choices that countries have made.
- Policy environments and regulatory demands are sometimes obsolete and beyond the capacity of the authorities.
- As countries develop, the business environments change – and with them the nature of demands imposed on business.
- More sophisticated demands economies generally require regulatory and administrative systems to function with greater efficiency than is necessary among the less sophisticated.



BUSINESS ENVIRONMENT (3)

‘Difficulties regarding registration of businesses were mentioned by stakeholders, and that these difficulties are linked to the slow bureaucratic process of issuing of licenses for economic activities. These difficulties were exacerbated by long travel distances to different institutions to complete paper work.’

- Mozambique CRR

‘Although Tanzania’s financial markets were modernised over the past 10 years and credit to local enterprise is gradually increasing, these gains were offset by an under-developed legal framework that interferes with regulatory efficiency and trade policies.’

- Tanzania CRR

‘The business environment in Mauritius is characterised by openness and a pro-business, outward-looking policy.’

- Mauritius CRR



CORPORATE GOVERNANCE SYSTEMS (1)

- The APRM interrogates countries behaviour in relation to various standards.
- In the corporate governance arena these are critical, and often technical in nature.
- The CRRs suggest that most countries are adopting them, at least in theory.
- South Africa's contribution to corporate governance has been exemplary – the King Codes have not only helped set the agenda in South Africa, but have attracted attention in Africa and beyond.
- The King Codes key innovation has been to integrate broad social accountability into corporate behaviour.
- Stakeholders in society – and not just shareholders, or even groups in involved in business operations – have legitimate claims on companies.



CORPORATE GOVERNANCE SYSTEMS (2)

- Despite a general nominal commitment to upholding clear corporate governance standards, for the most part, these remain works in progress.
- Archaic legislation is being updated, and institutions established...
- ... but the capacity of corporate governance institutions is typically not up to the task.
- Regulatory burdens are frequently onerous, especially for the small-sized enterprises that constitute most of Africa's private sector – in Zambia, for example, this has been identified as a big problem to developing its promising tourism industry.
- A framework exists for dealing with business malfeasance, but it is often very difficult to hold boards (as the ultimate oversight bodies) accountable.
- There is a critical need for corporate governance systems to be designed and implemented with a view to facilitating business, while simultaneously holding it accountable.



CORPORATE GOVERNANCE SYSTEMS (3)

‘Zambia has a reasonably adequate legal, regulatory and institutional framework which, if judiciously implemented, would ensure good corporate governance in the public and private sectors.’

- Zambia CRR

‘The National Board of Accountants and Auditors considerably advanced the accountancy profession in Tanzania. However, the professional education still falls short of international standards, compromising the quality of the professionals in the discipline.’

- Tanzania CRR

‘Although good corporate governance appears to be embraced in Lesotho to some extent, it remains largely at the policy level rather than at the implementation level.’

- Lesotho CRR



STAKEHOLDER ENGAGEMENT (1)

- A growing trend in corporate governance thinking is the notion that stakeholders other than shareholders have legitimate interests vis-à-vis businesses.
- This approach is in line with the King Reports, and is taken up by the APRM.
- Shareholders are generally protected by law, although this is frequently compromised in practice.
- The absence of shareholder activism is a major deficiency.
- Employees enjoy a great deal of protection, although legislation in this area is also flouted.
- The Zambia CRR notes that a general lack of understanding of corporate governance standards and the country's obligations undermines the process of engagement.



STAKEHOLDER ENGAGEMENT (2)

- 'Community' interests are increasingly recognised – although defining 'the community' is difficult.
- Considerable criticism directed at business for failing to benefit communities.
- Limited integration of small enterprises into the value chains of larger firms – very important for growing small SMEs.
- Environmental costs of extractive and manufacturing operations have prompted particular concern, despite measures take to limit them – this is in line with other research in Zambia.
- Little evidence of direct, intentional, coercive abuses of human rights, although a few examples are cited.
- The APRM does not adequately investigate stakeholder activism; a great deal is certainly happening, but it is not clear to what extent it influences business operations.



STAKEHOLDER ENGAGEMENT (3)

‘The CRM found that although Zambia has adequate legislation in place to safeguard human rights, enforcement of such laws is largely compromised due to a variety of issues.’

- Zambia CRR

‘Community needs and business accountability to communities are not properly explored by the corporate sector.’

- South Africa CRR

‘There is a “failure” to pay minimum wages set by Government owing to the need to give due consideration to factors such as productivity, competitiveness and affordability. The failure is also attributed to the desire to have sustainable enterprises that create more jobs, at the end of the day.’

- Tanzania CRR



THE INFORMAL SECTOR (1)

- Informal trade is an indispensable element of Africa's economies – over half the continent's GDP and as much as 75% of employment takes place here.
- Extreme shortages of information exist around the informal sector.
- African countries recognise the importance of the informal sector, although the APRM shows a strong drive on the part of government to formalise them.
- The regulatory environment can be a powerfully dissuasive force to entering the formal economy.
- This raises important strategic questions: is formalisation an appropriate course of action? What form of regulation is suitable? What form of corporate governance – if any – is suitable for informal business?



THE INFORMAL SECTOR (2)

‘Eighty-six per cent of Lesotho’s population lives in rural areas and engages in informal business activity.’

- Lesotho CRR

‘Private sector business is predominantly informal, unskilled and lacking entrepreneurial skills.’

- Mozambique CRR



CONCLUDING OBSERVATIONS

- Corporate governance must be geared both to promoting business and enforcing business accountability.
- Part of this involves improving the business environment – which in turn demands aligning regulatory and governance demands to the all-round capacity to implement them.
- A distinctly ‘African’ strain of corporate governance is emerging, stressing the overall accountability of business to the societies within which they operate.
- In this respect, corporate governance needs, above all, to be understood as a mindset recognising the reciprocal responsibilities that business and society have towards each other. In the African context, a broad moral-ethic approach is far more realistic for the emerging business sector than one hinging on strictly formalised rules.
- *The time has come for business and civil society to establish a dialogue with a view to cooperating on broad socio-economic development: the APRM has a key role to play here.*

THANK YOU

