Economic Commission
for Africa

Workshop on
Economic and Corporate Governance and Accountability in Southern Africa

7 – 9 December 2005, Lusaka, Zambia

Economic Commission for Africa
Southern Africa Office

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I. ATTENDANCE

1. The workshop on Economic and Corporate Governance and Accountability in Southern Africa was held from 7 to 9 December 2005 in Lusaka, Zambia.

2. Representatives from the following member States attended the meeting - Botswana, Mauritius, Mozambique, South Africa, Swaziland, Zambia and Zimbabwe.

3. The following partner organizations participated - Development Bank of Southern Africa (DBSA), Common Market for Eastern and Southern Africa (COMESA), Southern Africa Development Community (SADC), the United Nations Office of the Special Advisor for Africa (OSAA), International Monetary Fund (IMF) and the African Business Round Table (ABR). Staff members from the Development Policy Management Division (DPMD) at ECA Headquarters in Addis were also present.

4. The following institutions from various member States participated including: Debswana Diamond Company Ltd (Botswana), Centre for Corporate Governance (CCG-Kenya), Human Sciences Research Council (South Africa), Southern African Enterprise Network (SAEN–Swaziland), Governance and Management for Africa (Mozambique), UNISA (South Africa), BIDPA (Botswana), Institute of Directors (IOD Zambia), Bank of Zambia, Konkola Copper Mines PLC (Zambia), Lusaka Stock Exchange (LuSE), and Finance Bank (Zambia).

5. The list of participants is attached as Annex 1.

II. OPENING OF THE MEETING

6. Opening statements were delivered by the Director of ECA-SA, Ms Jennifer Kargbo and the Governor of the Bank of Zambia, Dr Caleb Fundanga.

Opening Statement by Director of ECA-SA

7. The Director of ECA-SA welcomed the participants to the Workshop on Economic and Corporate Governance and Accountability in Southern Africa. Ms Kargbo drew attention to the importance that governance had gained during the past few decades for accelerating Africa's development and stressed that African leaders today are trying to apply the principles of democracy and good political governance, as well as economic and corporate governance.

8. She also highlighted that governance has been given a central place within the NEPAD framework and is recognized as vital for the achievement of sustainable development in Africa. The NEPAD framework also contains a set of concrete and time-bound programs aimed at enhancing the quality of economic and public financial management as well as good corporate governance.

9. The Director borrowed from President Mbeki's statement on good governance, saying that "good governance is not a matter of seeking to improve Africa's relations with the rest of the world but to end political and economic mismanagement on the continent, consequential violent conflicts, instability, denial of democracy and human rights, [and to arrest the] deepening poverty and global marginalization".

10. Participants were informed about ECA's commitment to the promotion of economic and corporate governance and the attainment of accountability since 2001. In this regard, ECA prepared a set of guidelines on 'Enhancing Good Economic and Corporate Governance in Africa,' organized various forums including the Fourth African Development Forum (ADF IV) on 'Governance for a Progressing Africa' in 2004 and the Eastern and Southern African workshop on governance in 2003.

11. The Director ended her opening statement by notifying the participants that the discussions and recommendations from the current workshop will do well to draw lessons from previous forums on governance. Furthermore, the workshop is a follow up to previous work that ECA has done to spur faster economic growth, reduce poverty and contribute toward achieving the MDGs in Africa.

Official Opening by Guest of Honour

12. The Guest of Honour, Dr Caleb Fundanga (Governor, The Bank of Zambia) began his speech by welcoming all the participants to the workshop. Dr Fundanga said that the workshop was timely and significant as it came exactly a month after the Third Meeting of the Pan African Consultative Forum on Corporate Governance that took place in Senegal.

That Forum sought to stress:

i. The promotion of greater corporate governance in the banking sector and State Owned Enterprises;

ii. The need for an outline of Shareholder's obligations;

iii. The importance of governance in small and medium size enterprises as key to economic growth and development;

iv. The importance of governance in poverty alleviation.

13. Corporate governance refers to the mechanisms through which private or state-owned corporations and their management are governed, and that it provides a structure through which the objectives and the performance of a corporation are determined and monitored. The participants were informed that good corporate governance contributes to:

i. The efficient mobilization and allocation of capital;

ii. The efficient monitoring of corporate assets; and

iii. Improved national economic performance.

14. The Governor further stated that good economic and corporate governance are fundamental preconditions for the renewal of Africa. Good economic outcomes are derived from good economic and political governance, and the importance of corporate governance lies in its contribution both to business prosperity and to accountability. Corporate governance ensures that constituencies and stakeholders in a company are taken into account.

15. Participants were informed that the Bank of Zambia (BOZ), the central bank, had embraced good CG as essential to achieving its principal purpose of maintaining price stability. Additionally, the BOZ has embarked on a sensitization programme on corporate governance to members of its staff and board members.

16. The Governor urged the workshop to come up with practical recommendations and strategies for good governance in the Southern African sub-region, and ended his statement by mentioning that it was through such forums that the sub-region will be able to identify areas of intervention and cooperation for the attainment of good governance for Africa.

Workshop Objectives, Methodology and Ground Rules

17. A representative of ECA-SA, Ms. Doreen Kibuka-Musoke, outlined the workshop's objectives, methodology and ground rules. The objectives were to:

i. Review economic and corporate governance and accountability issues in Southern Africa;

ii. Identify challenges;

iii. Propose recommendations;

iv. Define strategies for good practice; and

v. Provide comments on the discussion document that ECA will publish in 2006 on Economic and Corporate Governance and Accountability in Southern Africa.

18. The workshop was divided into four plenary sessions i.e. one background/general session and three sessions to address the thematic areas - extractive industries, financial intermediation, and state-owned enterprises. Additionally, time would be made available for two case studies, two special presentations, three breakout sessions and a final plenary session.

19. The official opening session ended with an outline of the ground rules and an introduction of all the participants.

20. The adopted agenda/programme of work is attached as Annex II.

III. ACCOUNT OF PROCEEDINGS

Plenary Session 1: "Economic and Corporate Governance and Accountability in Africa - concepts, issues and trends"

ECA and Corporate Governance- Some Pressing Issues

21. A representative of the ECA Development Policy Management Division (DPMD), Dr. Mzwanele G. Mfunwa, presented a paper entitled "ECA and Corporate Governance- Some Pressing Issues." He began by stating that the State's involvement in the provision of good and services has been shrinking, and there has been a policy shift towards getting the business environment right. This shift entailed going beyond static competitiveness (that is, comparative advantage based on natural resources) through building up dynamic competitiveness based on well-trained personnel, up to date technology and providing the right environment for business. In this regard, an enormous amount of work has gone into luring private investment into Africa since the 1980s. Despite these efforts, the private sector remains embryonic and dominated by small, informal enterprises with little capacity to innovate or grow.

22. Participants were informed that the ECA's role has been to undertake research, advocacy and outreach activities, and that ECA has been working with other partners in support of NEPAD. Recently, DPMD's has sharpened its focus on economic and corporate governance in light of increasing role of private sector as an engine of economic growth and poverty reduction. Additionally, in 2000, the ECA established the "The Big Table" process, a forum of a small group of African Ministers of Finance and their OECD counterparts to discuss the continent's efforts toward sustained growth and poverty reduction.

23. Dr. Mfunwa called for measures to solve the "paradox of the plenty" (a situation where a country may rank low in terms of wealth despite being rich in terms of resources) problem to enable the continent to benefit from its vast natural resources.

24. The continent has to come up with corrective measures to deal with governance problems that plague extractive industries; state-owned enterprises; pension funds; and financial sector. The role of stock exchanges for economic development, and the strengthening of commercial justice systems need a review with a goal of revamping them in mind. He raised a number of questions with regard to CG in Africa: Is Africa paying enough attention to CG? Are the existing guidelines suitable? Are the existing codes and standards being applied?

25. Rather than try to invent new codes and standards, the presenter opined, Africa could do well in importing some of these (for example, the OECD codes and standards) but reconfigure them to suit Africa. Many Multi-National Companies, for example, have Western-based shareholders whose CG priorities (for example, an emphasis on disclosure in light of Enron and other scandals) may not be exactly the same as those in Africa (for example, where issues of corporate social responsibility and environmental concerns could be of paramount importance).

26. The workshop was requested to note also that it is important for civil society organizations (CSOs) to play an important oversight role and encouraged to participate in the formulation of policies. However, in order to do this effectively, they need to build their capacities.

Corporate Governance in Africa: Issues and Challenges

27. Professor Akinboade (Department of Economics, University of South Africa, UNISA) made a presentation on 'Corporate Governance in Africa: Issues and Challenges'. He bemoaned the limited research done on corporate governance (CG) in Africa. He underscored the importance of CG as a conduit for increased flow of financial capital to developing countries, and a means to establish efficient business enterprises that will create wealth and employment.

28. Adding another definition, he referred to CG as "the manner in which the power of a corporation is exercised in the stewardship of a corporation's total portfolio of assets and resources with the objective of maintaining and increasing shareholder value and satisfaction of other stakeholders in the context of its corporate mission". The presenter argued that good CG ensures that large corporations are well-run institutions, earning the confidence of investors and lenders in the process, and safeguards against corruption and mismanagement.

29. The presenter stressed that the elements of good governance that need to be considered include transparency, integrity and responsiveness to shareholders. He noted that, until the 1980s, African economies were largely state-controlled. However with structural adjustment programmes (SAPs) in the 1980s and early 1990s these economies have largely been placed in the private hands and liberalised. He urged that once the ownership of a SOE has been transferred to the private sector governments should ensure that a proper regulatory policy framework is in place. The presenter further noted that in many African economies, the financial systems are unsophisticated, shallow, illiquid and fledgling, making external monitoring costly to conduct.

30. Major CG challenges confronting Africa, he argued, include a lack of an effective and sound regulatory framework and a lack of public governance. A conducive environment for business sustainability needs to be created. Although some countries in Africa (Zimbabwe, Ghana, Uganda and South Africa) have put in place national institutional mechanisms to promote good CG, other countries (Botswana, Senegal, Tunisia, Mali, Mauritania, Cameroon, Gambia, Mozambique, Mauritius, Sierra Leone and Zambia) are receiving assistance to enable them to develop appropriate mechanisms for good CG.

31. The presenter concluded by highlighting several actions needed to improve CG culture in Africa. These include the need to safeguard against corruption, bribery and mismanagement; promote transparency in economic life; reinvigorate efforts to attract domestic and foreign investment; develop the capacity of firms; and develop systems to ensure compliance with good principles of CG.

32. In the discussion that followed, participants noted that an overarching challenge for Africa is to reverse capital outflows. It was suggested that this could be achieved by encouraging MNCs to re-invest their profits in Africa.

33. Participants noted the difficulties encountered in trying to keep political leaders from unduly interfering in corporate affairs. It was agreed that political leadership need training on integrity.

Corporate Governance: External Influences versus Internal Considerations –"Managing the Balance" in Africa

34. Mr Ejeviome Otobo (UN Office of the Special Adviser for Africa, OSAA) referred to governance in terms of concentric circles in which the main components were political governance, economic governance and corporate governance. He argued that political governance sets the orientation of the economy; economic governance provides the laws under which corporations are established; and corporate governance is the way in which firms are managed. He emphasized that CG is important because of the separation of management from ownership in the firm, and that CG is at the intersection of law, public policy, and business practices.

35. Key attributes of governance are transparency, rule of law, accountability, predictability, participation, institutions, instruments and the legal and regulatory framework.

36. The presenter distinguished between "external" and "internal" stakeholders and influences. External stakeholders include the suppliers, employees, customers, bankers, the community, the larger public and the State. External influences refer to economic and social trends that can increase the layer of external regulations on CG (i.e. globalization, liberalization, privatization, regional cooperation and integration). The internal stakeholders were referred to as the shareholders, the Board, management, and the employees of a firm. Additionally, within the internal structure, there are internal considerations that include the disclosure of rules, equal treatment of shareholders and Board Performance Assessments.

37. A number of constraints on corporate conduct were identified as falling under the voluntary category and others under the involuntary categories. Corporate Social Responsibility (CSR) falls under the voluntary category and related to this are relational CSR factors such as prudential constraints and non-relational CSR factors such as social and political activism. Under the involuntary category are national factors such as organic and market constraints and international factors such as laws and codes. He clarified the concept of Corporate Responsibility (CR): CR = ARL (Adherence to rules and laws) + CSR.

38. The presenter explained the meaning of corporate purpose and performance. According to him, corporate purpose is at the bottom rung of a ladder that progresses toward corporate strategy and structure and finally to corporate performance (i.e. success versus failure) at the top rung of the ladder. The measures of corporate success were described as profitability, market capitalization, market share, shareholder value, growth and wealth

creation, and return on capital and sales. He stated that in order to succeed in a competitive corporate world depends on the ability to invent, innovate and imitate.

39. The presenter explained the "managing the balance" concept. The role of government in managing the balance is to help firms to grow and prosper by providing a stable macroeconomic environment, a sound and effective legal and regulatory framework, development of physical infrastructure, a competent/professional public sector, and a market-based competitive structure. Additionally, he urged governments to invest in education and research in science and technology, and to provide policy space to non-state actors to influence corporate conduct.

40. The role of the firm in "managing the balance" is to encourage active shareholder participation in corporate affairs, elect effective and ethical boards, choose competent management, avoid inflicting "reputational harm" on the firm, comply with laws and regulations, install sound financial and auditing mechanisms, support laws that protect property rights, promote responsible corporate citizenship (which involves CSR activities), and recognize CSR as a dimension of corporate strategy not a precondition for corporate success. Firms should also seek opportunities for growth and innovations.

41. In conclusion, the presenter stated that in Africa several pro-active policy measures should be adopted to achieve sound CG. These include regulatory and enforcement mechanisms, an appropriate incentive regimes and state capacity. Robust state capacity is needed to "exhort" when desirable and "intervene" through regulations when necessary. It was further stated that country responses should be specific to the national context.

42. In the ensuing discussions, participants observed that CG responsibilities of directors of companies go beyond shareholders to include social responsibilities, and that the way in which the companies manage and discharge their duties.

43. Concerning relational and non-relational responsibilities of a company, participants noted that company gains should not inflict "reputational harm" which portrays them in negative light. It was agreed that relational responsibility was important although non-relational responsibility assists companies to profits and provide tax revenues to governments.

44. Participants noted that there are disagreements regarding a link between corporate governance performance and adherence to performing corporate social responsibilities. Some people saw this link as an integral part while others saw it as an adjunct, for some it is not a precondition for success but acknowledge that it is important to integrate it in their operations. It was unethical and politically damaging for those companies that were profiting from conflicts, and that harm can be done to a company's reputation in this way.

45. It was recognised that political will has an important role to play in the nexus between the corporate world and the political sphere.

46. Participants also stressed that corporate governance ensures that companies are run in a manner that is transparent and directors are held accountable. The Asian crisis was

cited as a classic example where a robust corporate governance system was not in place and that codes of ethics and conduct were lacking. Key among the issues which led to the financial crisis were a hasty liberalisation of financial markets and excessive lending to the housing sector.

47. The workshop took note of the fact that the rule of law and protection of property rights should be enforced in such a way as to protect the interests of investors, while also agreeing that certain economic (investment) policies in the sub-region are not in the best interests of the countries concerned.

The Pan-African Corporate Governance Forum – Recent Developments

48. Mr Eugene Chandi (Institute of Directors, Zambia), provided information on the objectives and composition of the Pan-African Corporate Governance Forum (PACGF). He informed participants that the forum brings together professional and trade organisations that are interested in the promotion of good corporate governance (CG) in Africa. One of the key objectives of the forum is to raise awareness of the significance of CG to economic development in Africa. The PACGF had so far held meetings in Johannesburg (2000), Nairobi (2003) and in Dakar (2005). A fourth meeting is planned for 2007.

49. The presenter provided an overview of the benchmarks of CG in the African region by way of legal and regulatory frameworks, governmental support, professional and business associations, adherence to international CG codes and national CG codes, stock exchange codes for listed companies, banks and non-bank financial institutions, SMEs and individual company codes.

50. He emphasised that progress has been made in reforming the financial sector, and that anti-corruption measures are being implemented.

51. The presenter then proceeded to highlight the results of 'Corporate Governance in Africa Survey 2005' that was conducted by Philip Armstrong of the CGCF in 22 African countries. The results revealed that the adoption of CG is at different stages in Africa. CG is most advanced in South Africa, followed by Mauritius. Kenya, Nigeria (particularly the financial sector). Uganda and Zambia are making a good progress while Zimbabwe has shown some regression.

52. With regard to CG in the Southern African sub-region, he said that South Africa's CG environment has improved significantly since the adoption of the 1994 King I Report and the 2002 King II Report. The post King II period has focused mainly on the legal and regulatory environment, updating the JSE listing rules with a social responsibility index, reviewing company law, and updating the protocol of SOEs on CG. Moreover, legislation was introduced covering whistle blowing, anti-corruption and money laundering, and an expressed commitment to full adherence to Basel II and FRS, and Director Training.

53. Corporate governance in Botswana has been championed by the Institute of Directors (Botswana). The King II and Combined Code have been adopted, and government has

recognized that the implementation of good governance principles is fundamental in its 'Vision 2016'. Additionally, a training program for directors in both private and public sector has been compiled.

54. In East Africa, the Centre for Corporate Governance (CCG), based in Kenya, has issued the Principles of Corporate Governance in Kenya and a Sample Code of Best Practice for Corporate Governance. The CCG has also finalized guidelines on Good Corporate Governance in the Commercial Banking Sector in Kenya. The country has recently completed the NEPAD's APRM process.

55. In West Africa, the Nigerian government has implemented an intensive program to eradicate corruption, and an intensive focus is now on the implementation of sound CG in banking and non-banking financial institutions. Furthermore, the boards of the Securities and Exchange Commission (SEC) and Corporate Affairs Commission have released a code of best practice.

56. Mr Chandi emphasised that banks play a pivotal role in the economy, and should therefore adopt and implement international best practices to enable them play a leadership role in promoting good CG on the continent. He urged banks to adhere to the Basel II banking guidelines.

57. In reference to SOEs, he urged for the adoption of guidelines for good CG that are compatible with international standards whilst taking into account local circumstances. Shareholders should be informed of their rights, duties and obligations, and this should be seen as part of efforts to encourage participation.

58. Subsequent discussions called for the adoption of a strategy that will ensure that non-English speaking countries like Mozambique are not excluded from the proceedings of PACGF meetings. However, the presenter did confirm that the PACGF was inclusive of all countries in Africa and that, in fact, Mozambique was driving the CG processes in the sub-region.

59. Participants agreed that oversight and integrity need improvement in Southern Africa. Political will was also cited as important but it was noted that this takes a lot of effort to achieve. It was noted also that governments in the region were carrying out measures to contribute to CG and address corruption. There was a general consensus that more could be done.

Special Presentation 1: Overview of Economic and Corporate Governance and Accountability in Southern Africa

60. Professor John Lungu (Copperbelt University) presented the discussion document, "An Overview of Economic and Corporate Governance and Accountability in Southern Africa". In his introduction, he alluded to rapid political and economic changes that have taken place in Southern Africa in the last fifteen years. He noted that the sub-region

has seen a change in ownership from state owned enterprises to private sector. He also observed that these changes have impacted on both the political and economic spheres. Liberalization has therefore taken root in Africa and has brought to the fore the role of private corporations in national development. The establishment of stock exchanges to facilitate the development of capital markets is also one of the most significant developments in the Southern African sub-region.

61. He described governance as a broad concept touching on human issues, political and juridical methods and corporate issues. He stressed that poor economic performance of many African economies can be blamed on poor governance, and for this reason, governance has become a central part of the African development agenda. Furthermore, he noted that international pressures had contributed to the elevation of governance issues in Africa, and these forces have to be recognized in the debate on CG issues.

62. He added to CG definitions, describing it as a concept that encompasses the establishment of an appropriate legal, economic and institutional environment that allows companies to thrive. The presenter underscored that CG is about balancing shareholder expectations and interests with those of other stakeholders such as managers, employees, customers, and suppliers. In addition, CG also encompasses corporate social responsibility (CSR).

63. After outlining the different sources of CG standards including OECD Standards, the King Report, NEPAD Standards and CACG Guidelines, Prof. Lungu made a presentation on the progress made on CG in the financial, extractive and state owned enterprises in the Southern Africa sub-region.

64. With regard to the financial sector, he referred to the emergence of stock exchanges, saying that this is a sign of the maturity of the African financial market. He pointed out that the Johannesburg Stock Exchange (JSE) was the oldest in the region and it is the one upon which most other stock exchanges in the sub region rely on for leadership and experience. Reference was also made to the stock exchanges in Lusaka, Gaborone and Harare.

65. With respect to the extractive industry, Prof. Lungu called out to companies to embrace the sustainable development agenda and ensure that social, economic and environmental sustainability issues be addressed. He issued a caution that issues of a social license to operate still need to be dealt with, and hence remain a challenge.

66. The presenter noted that despite the increase in privatization in Africa, the remaining state owned enterprises (SOEs) face daunting challenges, including poor qualifications of state-appointed CEOs and Board Members. To ensure the efficient operation of SOEs and observance of good CG, appointments to leadership positions should be based on merit, he concluded.

67. During the discussions, participants commended the presenter for defining good governance as a 'balancing act' whereby the expectations of shareholders and other stakeholders are incorporated because often the traditional way of defining good governance excludes other stakeholders and concentrates on shareholders only. Participants also felt that

it was important that the discussion document should include a reference to the Securities Act in Zambia, which forms the basis of the Lusaka Stock Exchange.

68. Much debate amongst the participants centred on the pros and cons of political interference in SOEs. The presenter argued that political interference was not necessarily bad, but that the context of the political interference needs to be considered. If, for example, political interference is in the context of public-private partnership then this type of interference is not negative. It was also stressed that political interference cannot be completely eliminated in SOEs as it was necessary in the supply of "purely" public goods.

9. Participants noted that pressure for adherence to good corporate, economic and political governance should be both international and domestic. Internal momentum for change on CG front should be generated by businesses. Student membership to professional associations such as the IOD can help students into responsible business managers. It was also noted that NGOs have had an immense influence on pressing for good corporate governance within the public and private sphere and this should continue to be encouraged.

70. With regard to the sequencing and speed of incorporating CG codes, the presenter cautioned against excessive legislation, arguing that this could be counter-productive. Instead, he urged for the adoption of voluntary codes of conduct as a better route to follow.

Plenary Session 2: Corporate Governance and Extractive industries

Corporate Social Investment

71. Mr Augustin Seyuba (Konkola Copper Mines, KCM) made a presentation on 'The Impact of Corporate Social Investment – a view point by KCM'. He gave an historical background to KCM and described the company's profile. He explained that KCM is the largest private sector employer in Zambia and operates in Nchanga, Konkola, Nampundwe and Nkana. He pointed out that Vedanta Resources PLC, a mining and metals group, had recently become a strategic equity partner in November 2004. He stated that KCM's vision is to "uphold the values of good corporate citizenship and seek to contribute to the wider economic, social and environmental well-being of Zambia."

72. KCM makes a significant economic and social contribution to Zambia through its capital investment projects, employment and human resource development programmes, and its CSR programmes, which include statutory payments and awards of business to local programmes. He stated that in 2005, KCM spent over USD 7 million on its CSR programmes.

73. In terms of corporate social investment, KCM operates under the global principles of Sustainable Development and addresses the issues through its Final Social Management

Plan that operates based on a framework that includes considerations such as local economic development, health and welfare and public consultation and disclosure.

74. In conclusion, the participants were informed that there had been a number of lessons learnt in KCMs history, and the success of KCM's Corporate Social Investment Programmes have been mainly due to a number of principles that have been upheld including commitment, inclusiveness, resourcefulness, capacity-building and community participation. In addition, KCM intends to sustain its community development efforts by mobilizing additional resources through various partnerships and promote the emergence of appropriate structures to build social capital.

Corporate Social Responsibility

75. Mr Martin Kalungu-Banda (Office of the President, Republic of Zambia) made a presentation on 'Corporate Social Responsibility' (CSR). He began by referring to Corporate Responsibility (CR) as having a number of dimensions including the economic, the legal, the ethical and the philanthropic.

76. It was explained that the emphasis on CR has arisen from the fact that in the last decade, more than 3bn people in the world have come to live in economies that operate on market principles and, additionally, there is increasing evidence of the correlation between the good standing of a company and improvement in performance.

77. CR, it was stated, lived through partnerships between Government, Business and Civil Society and will not work if there is no buy-in from the organizations leadership or if CSR is reduced to a part of the public relations wing of an organization, or even perceived to be synonymous with social investment.

78. CR, Mr Kalungu-Banda explained, will work if the concept is integrated into the organizations' 'DNA,' so that it becomes a way of doing business and, also, when the leaders themselves are the first believers in the concept.

Sustainability Reporting

79. Mr Markus Reichardt (URS) made a presentation on "Sustainability Reporting in Extractive Industries – tracking progress through Southern African mining company reports". In the introduction, the presenter noted that sustainability reporting is a growing phenomenon that covers governance, economic, social, health, safety, community and philanthropy issues. Sustainability reporting is a way of operationalizing corporate governance (CG) by demonstrating management of all business risks and enables CG to move beyond static reporting.

80. The features of good reporting on sustainability issues include being relevant and timely, accessible, non-selective, systematic and comparable and the provision of quantitative information with context. With regards to the infrastructure required for good reporting on sustainability issues, he said that due to the sheer diversity of issues, sectors,

communities and companies, there is no single model of organizational structure that is optimal for managing sustainable development (SD) issues. However, what is listed as important includes - a vision that is clear and compelling, a reporting hierarchy that is capable of transmitting information and data in a way that maintains integrity, enough capacity to achieve objectives, enough resources, competency, and staff continuity.

81. In terms of SD reporting in the mining industry in Southern Africa, Mr Reichardt stated that he had reviewed the reports of 10 major South African-based gold and platinum group metals (PGM) mines to determine the extent of their coverage. The results were compared against those of BHP Billton and Anglo-American PLC (AA). The analysis of the trends in terms of coverage versus depth showed that leaders such as BHP and AA had achieved coverage and depth in reporting. Additionally the results showed that most company reports regularly cover a wide range of sustainability topics, but less than half of this coverage is supported by quantitative data whose year-on-year comparison would have allowed stakeholders to assess company progress.

82. He highlighted the legal aspect of SD as it relates to areas where the disclosure of information is mandated by law. Here, companies have been able to provide relevant data in a consistent and comparable manner. The South Africa Mining Charter was cited as a law that had markedly increased the reporting on certain aspects of environmental and social performance in a comparable format. He noted, however, that the large multinationals surveyed appeared to have little difficulty in providing data in comparison to the smaller operators, highlighting the fact that extensive reporting is the preserve of well-resourced big businesses.

83. Mr Reichardt concluded by stating that the resources required for the generation of an annual sustainability report represents a considerable demand on the often-limited corporate capacity in this field. Moreover, without an adequate infrastructure to support SD activity, SD reporting will remain weak. He stressed that reporting should be an outcome not an objective of management systems for sustainability issues.

Case Studies in Extractive Industries

Botswana

84. Mr Joe Matome (DEBSWANA DIAMOND COMPANY (PTY) LIMITED) made a presentation entitled “A Gem of a CR Programme – Debswana’s evolving social activities”. He provided a background to the company. . Debswana is the world leader in diamond mining responsible for four mines with the largest operating in Orapa. It has 30 years experience in mining and there is a 50/50 shareholding between the Botswana Government and De Beers. The company contributes 50% of government revenue and 75% of foreign exchange earnings.

85. Debswana’s CR objectives include ensuring that the impact of their mining activities is not limited to maximizing revenues and that the company’s main target is their employee,

environment, communities and the nation. He further added that there is a community involvement in its operations and decisions through its corporate social responsibility and social investment initiatives, and well-entrenched safety, health and environmental systems in operation, including AIDS management system, private schools and 2 major district referral hospitals on site. Participants were further informed of Debswana's new "North Star" 5 year strategic vision and objectives, which took into account the objectives of the 3Ps of sustainable development i.e. people, profit and planet.

86. Additional contributions to Botswana's economic and social development include donations to various societies and NGOs and over P20 million (Botswana Pula) a year expenditure on education scholarships and grants.

87. Mr Matome concluded by stating that Debswana is of the view that Corporate Social Investment (CSI) is moving away from simply writing cheques and instead is gearing towards sustainable wealth creation and the development of Botswana. "Mining the resource is equal to enriching the nation", however enriching is not about cash but more about empowerment and sustainable wealth.

Zambia

88. Professor John Lungu (Copperbelt University) made a presentation entitled "Corporate Governance and the Extractive Industry in Zambia". He explained that the extractive industry includes those companies that remove natural resources from the earth for processing and/or sale and includes mining, oil and gas companies. During the colonial period mining firms provided all social services and housing, and were responsible for the planning of the mine areas. There was a bad record of degrading the environment particularly air, water, the stripping of land and the dumping of waste.

89. During the Zambia Consolidated Copper Mines (ZCCM) period, social services and housing for miners continued to be provided. However the major problem was government interference. For example, the separation of roles between the Chairman and the Chief Executive were not clear and there was governmental interference in the selection of the Board. Eventually, due to poor economic conditions, the firm was privatized.

90. During the privatization period, the ZCCM was divided into smaller units, its social service provision was reduced, and the miners' salaries were reduced to such an extent that most miners are now living below the Jesuit Center for Theological Reflection (JCTR) Basic Needs Basket value (Kwacha 1,013,530).

91. All mining companies in Zambia are currently exempt from environmental liabilities (which is against OECD standards) and the safety record of many of them is dismal. Furthermore, water and air pollution remains a problem, leading to high cost of water treatment that is largely borne by the communities.

92. Prof. Lungu informed the participants that from the above analysis, it is clear that corporate governance (CG) and corporate social responsibility (CSR) needs improvement in Zambia. Still today, mining companies are making huge profits but the relative com-

pensation for miners is very small. Additionally, the disclosure of mine operations remains secretive, and even obtaining annual reports can be a hustle. Employment has also declined in both mining and contracting companies.

93. He concluded by highlighting the main issues that need attention in the extractive industry in Zambia including – a lack of transparency, reduced employment, poor salaries, mine safety concern, access to health (user fees), poor recreational facilities, poor sanitation and land issues.

94. During the discussion, participants raised the following concerns:

- Whether Debswana can sustain its high profitability while also addressing environmental concerns;

- Debswana's post-mining activities;

- The linkages between natural resources, economic growth and human development;

- The role of CSOs in sensitizing the community affecting people during and post mining activities; and

- MOU between governments by mining investors and companies.

95. The Debswana representative stressed that the company takes the environmental sustainability concerns of its mines seriously and has also established a long-term vision of post-mining activities. With regard to the linkages between natural resources, economic growth and human development, he noted that the case of Zambia brings to light the negative implications and consequences of dependence on a single natural resource for economic development and growth. Therefore, diversification of the economy was needed for sustainable development. Participants felt strongly that commitments inherent in the MOU's between governments and extractive companies are often not being adhered to.

Plenary Session 3: "Financial Intermediation and Corporate Governance"

The Role of Corporate Governance in the Banking sector

96. Mr Chisha Mwanakatwe (Bank of Zambia, BoZ) made a presentation on 'The Role of Corporate Governance in the Banking Sector'. He defined corporate governance (CG) as a system through which corporations are directed and controlled to meet defined objectives and enhance shareholder value. From a banking perspective CG involves the manner in which banks are governed by the Board of Directors and Senior Management to meet their obligations to shareholders and stakeholders.

97. He outlined the principles of good CG as discipline, transparency, independence, accountability, fairness, and social responsibility. He stressed that CG is critical in the

banking industry due to role that banks play as custodians of public funds, and that the high leveraged nature of banks demands high levels of integrity and accountability. Banks occupy a special place of trust in the economy as financial intermediaries, and are therefore very sensitive to ineffective CG.

98. In the banking industry, CG enhances investor confidence; attracts investment; enhances accountability, transparency and integrity; and promotes market discipline through disclosures and promotes national development. The presenter added that some of the key issues for CG in the banking sector include internal control processes, risk management systems, auditor independence, material disclosures, and internal audit competence. He stressed that stable financial systems with globally accepted CG practise stands to attract investment capital.

99. The presenter noted that corporate failures spawned a number of legislations across the globe. The Sarbanes-Oxley Act (SOX) of USA seeks to use a number of measures to enhance regulation and accounting such as audit independence and CEO and CFO certification. The Higgs Report (UK) emphasises board independence and the separation of the CEO from the Chairperson. The Smith Report, also from the UK, emphasises the monitoring of the internal audit function and the independence of external auditors. The South African King Report goes beyond financial and regulatory aspects to requiring companies to recognise that they no longer act independently from their society and that a wide range of stakeholders should therefore be considered.

100. Mr Mwanakatwe concluded by informing the participants that the BOZ is in the process of issuing CG guidelines as one of the tasks under the Financial Sector Development Programme (FSDP). This has arisen from the need to enhance financial stability and also to comply with internationally accepted corporate practices. BoZ is also implementing risk-based supervision, and placing emphasis on ensuring that its Board members understand the risk profile of the bank.

101. In the discussion that followed, participants urged banks to ensure a 3-year rotation for auditors. They further called for measures to prevent bank closures, including stringent licensing of financial institutions; strengthening of supervisory capacity; and the development and enforcement of relevant laws.

102. Participants observed that it was important for central banks to encourage CG in other financial institutions, namely pension funds, micro finance, insurances, building societies and stock markets. Participants acknowledged the difficulty of ensuring that the chief executive of a central bank is independent of government because of the advisory role central banks play to *vis-à-vis* governments on policy issues.

Corporate Governance: The Role and Status of Capital and Financial Markets in Southern Africa

103. Mr Mumba Kapumpa (Institute of Directors, IoD, Zambia) presented a paper entitled 'Corporate Governance: The Role and Status of Capital and Financial Markets in Southern Africa'. He highlighted the challenges of the African economic transition. Be-

fore the 1980s, most African economies were state-controlled, consisting mostly of parastatals, underpinned by interest and exchange rate controls and credit allocation. During the post-1980s years, many African economies underwent a reform process that consisted of privatization, liberalization and the development of capital markets. He pointed out that in 1980 there were only 7 stock exchanges in Africa, but by 2000 the number had risen to 20.

104. One of the major challenges to CG in Africa relate to capital market ownership. The majority of listed companies are subsidiaries of foreign multinationals, and their shareholders are also foreigners, with minority domestic investors. Local investors therefore have no effective vote and share-ownership is dispersed, making it difficult to monitor and control management. In light of this, the presenter advocated for the development of capital market rules that deal effectively with these anomalies, including measures to protect minority shareholders.

105. With respect to Southern Africa, Mr Kapumpa reminded participants that the SADC economic block has political origins (originally aimed at reducing heavy economic reliance on apartheid South Africa). He referred to a number of developments that have taken place in the SADC region, including the emerging capital markets, the King Report II, the IoD Manual, the Lusaka Stock Exchange Code, and the harmonisation of securities laws and listing requirements.

106. He stressed that important features of CG included a fair board structure, the separation of the Chair from the Managing Director's function, Directors induction and training, regular board meetings, board committees, regular audits, and risk management.

107. Mr Kapumpa concluded by highlighting that CG is critical to modern companies and to capital and financial market development by assuring investors and controlling management excesses. He added that, given the relatively undeveloped capital market infrastructure in Africa, CG should include measures that deepen capital markets, improve listing requirements (to provide fair trading), develop reputation industry (accountants, investment bankers, analysts, lawyers, media) and strengthen capacity building. Mr Kapumpa also coined the term "creation of wealth" as a substitute for poverty reduction.

108. In the discussion that followed, participants stressed the need for members of a board to be subjected to law if the company fails to be transparent. This may improve their responsibility and accountability. Participants also noted the importance of the independence of board members and suggested that African countries should emulate the case of Australia where companies can pick and independent board member from a list of people trained to be independent board members.

The Role of Corporate Governance in Financing Projects

109. Mr Lewis Musasike, (Development Bank of Southern Africa, DBSA) made a presentation on "The Role of Corporate Governance in Financing Projects". He explained that the role of Development Finance Institutions (DFIs) is to provide intermediate financial and non-financial resources at affordable and appropriate terms, implement country/re-

gional/continental socio-economic development projects and programmes, compliment public finance and private sector finances, and act as a source of information, knowledge and policy advice.

110. He said that the DBSA is a DFI owned 100% by the Republic of South Africa, but which has a SADC regional investment mandate. The DBSA's mandate focuses mainly on economic infrastructure investment, which include agri-business; energy/power; oil and gas; ICT/telecoms; transport systems (airports, roads and ports, pipelines); water and sanitation; mining; financial sector/capital markets.

111. From the DBSA's perspective, CG is important due to risks inherent in its business environment, including corruption, money-laundering, inability to borrow or repay, reputation risks, loss of investor confidence, failure to attract and retain high level skills, and failure to account for the use of public funds and resources.

112. Mr Musasike outlined some of the CG and accountability practices at DBSA which included the following:

❈ Institutional level:

- Shareholder/Government approve mandate and strategic direction, but does not interfere in day-to-day operations;
- Shareholder appoints Board of Directors and all except one (1) are non-executive, and of 15, only 3 from Government;
- The Bank benchmarks its practices/policies against international best practice;
- Board members appointed due to prescribed skills and experiences; and
- Disclosure of executive remuneration.

❈ Project/Programme level:

- Project appraisal incorporates the institutional model which looks at client corporate governance; CSR and environmental and social issues;
- Due diligence conducted on all stakeholders;
- Regular monitoring and surveillance during implementation and after completion; and
- Regular reporting by borrowers to the Bank.

113. He stated that the DBSA's experience in CG initiatives have helped to reduce incidences of corruption, promote fairness and transparency and ensure favorable business outcomes. However, some major lessons have been learnt including that there is no single CG model; there is need for improved capacity for monitoring and evaluation to detect

early warning signs in key projects; and, generally, governments are the most common culprits in undermining corporate governance.

114. In conclusion, he stressed that CG needs to transcend organizations so that it become a way of doing business. There should also be a clear separation of duties and responsibilities among all key stakeholders and a balance between public sector and private sector representatives on boards in order to manage perception. Additionally, he advised that, when financing projects, effort should be made to establish a deep relationship with clients and borrowers.

115. In the discussion that followed, participants were informed that about two thirds of the DBSA's infrastructure projects are in South Africa and the rest in the Southern African sub-region. Most of these projects, in the rest of SADC, are in the energy, transport and telecoms/ICT sectors. Mr Musasike also explained that the National Treasury (under the Public Performance Management Act) is responsible for supervising the DBSA.

116. He said that the DBSA provides support and technical services on corporate governance to its clients, however it was stressed that negotiations and contacts with member States are normally maintained with the responsible ministries.

The FSDP and corporate governance in the financial sector in Zambia

117. Mr John Machayi (Finance Bank) described the Financial Sector Development Programme (FSDP) as a comprehensive strategy that addresses weaknesses in the financial system. Phase I of its implementation is to focus on developing policy priorities, whilst Phase II focuses on longer-term issues.

118. He informed the meeting that the FSDP has a Steering Committee tasked to oversee the FSDP's activities and providing advice and overall direction. The Committee also has a Working group in eleven major thematic areas including accounting and auditing, banking, contractual savings, financial markets, human resources, legal and regulatory issues among others.

119. The constraints to CG in Zambia were identified to include lack of quality boards in a number of corporate bodies, prolonged existence of interim boards, some inappropriate shareholding structures, the anomalous phenomenon whereby the same individuals are present on several boards, prevalence of the non- separation of powers between the Board Chairperson and Chief Executive, lack of transparency in the appointment and removal of Directors and Chief Executives and weak legislation in managing private and public sector companies' disclosures.

120. He identified current challenges to the Zambian banking sector to include; shareholder compliance, reputation risk, screening of shareholders, banking organizational structures, searching for new directors/replacement of directors and qualifications of directors.

121. He emphasized the importance of codes of practice in good CG referring to it as a method of self-regulation. He stressed that a code of best practice will provide for the following issues - authority and duties of shareholders, leadership of the company, role and functions of the board, the roles of the Chairman, appointments to the board, directors' remuneration, disclosure of information by directors, supply of information to directors, directors' training and development, accounts, Audit and Disclosure, extension of scope and duties of auditors, the role of audit committees and the responsibilities to other stakeholders.

122. Mr Machayi noted that the establishment of a governance code is highly important for the banking industry.

123. During the discussions that followed, the meeting agreed that governance should be legislated, and that self-regulation through industrial standards or codes of conduct should be encouraged to ensure good CG. Through various industrial standards, companies would then have a moral duty to adhere to good CG. The Equator Principles and the Kimberley Certification processes were cited as examples of industrial standards.

124. The participants felt that, despite its importance, reputational risk had not been adequately addressed given that the closure or failure of banks affects the reputation of the whole banking system. Once investors or depositors lose confidence in the banking sector, funds are either withheld or moved to other local banks or even outside the country, which can have a catastrophic ripple effect on the economy. It was suggested that the establishment of deposit protection systems may help to lower reputational risk.

The Role of Corporate Governance in the Promotion of Investment

125. A representative of ECA-SA, Mr Oswald Mungule, made a presentation on "The Role of Corporate Governance in the Promotion of Investment'. He discussed the following issues: ownership structure, the legal system, the relationship between the private sector and government, firm sustainability, human resource capabilities, business environment and the investment climate.

126. He defined corporate governance as a system of accountability and responsibility among shareholders, the board of directors and the management of a corporate entity. It encompasses both the decision making process and the accountability structure for achieving corporate strategic objectives. He noted that the basic principles of corporate governance (CG), that is, fairness, transparency, accountability and responsibility are minimum standards that provide legitimacy to the corporation, reduce vulnerability to financial crisis, and broaden and deepen access to capital. However, he also noted that applying these principles across a wide variety of legal, economic, and social systems is not easy as issues such as capacity and vested interests prevail, particularly in Africa.

127. He defined the investment environment as the regulatory framework and registration and information dissemination processes that exist. He noted that investment promotion is primarily concerned with marketing a country's investment opportunities and

devising strategies for investors to create wealth. Therefore, the investment marketing mix, treatment of investors, industrial policy, and communication policies, among others, are vital ingredients of investment promotion.

128. The presenter identified issues related to corporate governance and which negatively affect investment in any sector of the economy in Zambia, namely, policy uncertainty, corruption, lack of confidence in courts, crime, costly regulatory and tax administration systems, availability of finance, cost and availability of electricity supply and skilled labour constraints.

129. Besides the major constraints to investment in Southern Africa, he presented statistical evidence on major governance issues for the business environment, namely; lengthly procedures for starting a business, registering a business, and the enforcement of contracts, among others. He further called for streamlining all business environment procedures despite Zambia doing better, in most cases, than the Sub Saharan standards.

130. The presenter highlighted statistical evidence on levels of investment in selected Southern African countries between 1980 and 2003. The statistics indicate that the gross private investment has been increasing for Zambia, Mozambique, Zimbabwe and South Africa between 2001 and 2003. However, the net foreign direct investment (FDI) to these countries has remained very low despite an increase in gross private investment over the same period. However, both the investment and business environments partly explain the low levels of FDI to the Southern Africa region.

131. As a way forward, he called for measures to solve the problems of business risks and regulatory overlaps through the creation of a single financial sector regulator and establishment of a one-stop shop for investors to improve the investment environment.

132. In the discussion that followed, participants observed that the presentation did not clearly bring out the relationship between CG and investment at the micro level. It was pointed out that for the relationship to come out clearly, the analysis should have been disaggregated by sector and industry and by the different types of investment. The meeting agreed with the presentation on issues of confidence in the legal system and predictability of policies, which were important in investment decisions.

133. As far as the relationship between investment and CG was concerned, the participants felt that there were factors, which were crucial for investment promotion. Among these were issues of sustainability of investment, confidence in and predictability of policies and the need to put in place favourable legal and regulatory environments.

134. The presenter responded to the issue on the clarity between corporate governance and investment be stating that the study is moving into that direction and will be the basis for further research on the micro level analysis to give more specific input into operational programmes of all the stakeholders who were present.

Corporate Governance and Entrepreneurship

135. Mr David Govere (Director, African Business Round Table, ABR Southern Africa Chapter) made a presentation on "Corporate Governance and Entrepreneurship – a Zimbabwean Experience". He discussed developments that had taken place in Zimbabwe to allow for the participation of indigenous people in the banking sector and to establish policies that are more supportive of indigenous entrepreneurial endeavors.

136. It terms of the challenges in the financial services sector, he referred to the official government exchange rate, the parallel and the black market rent-seeking and arbitrage, and the rapid externalization of capital and rampant speculative behavior which has led to the closure of indigenously-owned financial institutions. However, he said that some developments had taken place in terms of the agricultural sector such as concessionary financing to boost exports and support industries through a productive sector facility that is managed by a central bank.

137. He noted that to counter this, government through the central bank, has introduced tough surveillance measures and liquidity management standards, and this led to a sizeable number of financial institutions being placed under central bank appointed curators and administrators. In addition, the private sector through the business associations championed by the IoD has been creating awareness and reinforcement of corporate governance frameworks in line with the developments globally, however the presenter noted that participation of companies has been largely voluntary. Further, the government has introduced legislation to curb money laundering, corruption and bad competition practices and introduced a government ministry to monitor and combat corruption.

138. The Standards Association of Zimbabwe, a quasi-government institution, has been primarily involved in the certification of manufactured products and developing a standard for CG that will lead to certification of companies with acceptable practices. He also made reference to the increased role of auditing firms, and the launch of Business Ethics Charters such as the Confederation of Zimbabwe Industries (CZI) Business Code of Ethics.

139. Mr Govere concluded by advocating for an increase in rural banking to ensure that banking services reach poor areas to enable participation by the poor in wealth creation and management. Finally, the capacity of all CG-enforcing institutions should be strengthened.

140. In the discussion that followed the presentation, participants noted that it was important to recognize that CG is not an end in itself, but a process. The meeting noted that the "begging bowl" syndrome in Africa was due to the failure of Ministers of Finance to prudently discharge their responsibilities of collecting taxes, managing the exchange rate, being custodians of the treasury and managing the national debt. If Ministers of Finance stuck to these responsibilities, the need for budgetary support from donors would be greatly reduced and this would improve financial management by governments. Donor budgetary support leads to poor financial management.

Case studies in the Financial Sector

South Africa

141. Mr Amith Singh (Nedbank Group Limited) gave a presentation on "Financial Intermediation and Corporate Governance in South Africa – The case of NEDBANK – the Equator Principles". He first defined enterprise governance as both the corporate governance (CG) and business governance aspects of an organization and then proceeded to outline how Nedbank was implementing enterprise governance.

142. He indicated that Nedbank had revised its code of ethics to reflect developments in the sector, locally and internationally over the last few years. He also outlined the sustainability programs that Nedbank was undertaking. These include Affinity programmes such as Green, Sports, Arts & Culture and Childrens' Affinity Trusts, Nedbank Foundation; staff participation programmes such as Local Heros and Team Challenge; and environmental management that include the internal and lending/financing activities. The presenter indicated that the measurement of Nedbank Progress includes the Sustainability Reports 2003/4 (Corporate Citizenship report 2002); external verification 2004 – UNISA CCC/WWF; Revision of Group Environmental Policy; Inclusion in Credit and Cluster credit policies; Revision of code of ethics; UN Global Compact Signatory 2005 and Adoption of Equator Principles 2005.

143. He defined the "Equator Principles" as an industrial approach for financial institutions in determining, assessing and managing environmental & social risk in project financing. In adopting these principles the bank seeks to ensure that the projects financed are developed in a manner that is socially responsible and reflects sound environmental management practices. The bank does not provide loans directly to projects where the borrower will not, or is unable to, comply with environmental and social policies and processes.

144. Mr Singh indicated that so far, 35 companies have decided to adopt the Equator Principles. Nedbank is the first African Bank to adopt these principles. The adopting institutions view these principles as a framework for developing individual, internal practices and policies. These principles do not create any rights in, or liability to, any person, public or private. Banks are adopting and implementing these principles voluntarily and independently, without reliance on or recourse to IFC or the World Bank.

145. He concluded by stating that Nedbank adopted the Equator Principles to be in line with Nedbank's existing environmental and social policies and also in line with the rapid developments in South African legislation and codes. The adoption will help to bolster the existing risk management processes, and to also create positive relationships with other Equator banks, clients, NGO's and other stakeholders.

Zambia

146. Dr. Bwalya Ngandu (Managing Director: Development Bank of Zambia, DBZ) made a presentation on "Intermediation and Corporate governance in Zambia–the case of the DBZ". He gave background information about DBZ, saying that the bank was established in 1972 by the Development Bank of Zambia Act and commenced operations in 1974 as a joint venture with the government of Zambia with 60% shareholding and investors with the remaining 40%. The bank began to experience problems in the late 1990s mainly due to loan servicing, losses, and the inability to service credit lines.

147. DBZ represents a good case study of a nearly failed financial institution and how corporate governance issues were addressed to revive it, and Dr Ngandu pointed out that government ownership of a bank could potentially complicate corporate governance.

148. The reasons, which led to the bank's poor performance, were outlined. Some of factors were to do with corporate governance and other related to external factors such as economic liberalization, international commodity markets and poor credit evaluation and appraisal policies.

149. The measures the bank took to promote good CG included changes to the appointment, roles and responsibilities of the board and the Chief Executive Officer (CEO) and shareholders. Others had to do with the formulation of policies, strategies, business plans, compliance with laws, regulations and codes of best practices.

150. To resolve deficiencies in CG new laws governing the operations of the DBZ came into effect in 2001 and 2005. The Zambian regulatory authorities adopted Basle as part of the Southern African Banking Supervisory Group Application, and DBZ was required to make monthly returns on performance, subjected to onsite periodic inspections. DBZ was also required to develop and maintain a Task Management Framework.

151. He indicated that the CG environment had improved substantially, appropriate internal and external measures were being implemented and that changes showed that there was no inherent conflict between government ownership and good corporate governance.

152. In the ensuing discussions, Dr Ngandu confirmed that the exclusion of the CEO of the DBZ from board membership was a measure aimed at correcting the situation where the CEO had powers to control the board. The CEO therefore performs on behalf of the board, attends all board meetings and is held accountable to the board for implementing decisions made by the board. In other words, the CEO works for the board and not the previous scenario where the reverse was the case.

153. Concerning the situation where all directors are non-executive, he said that there was little possibility of the CEO presenting one position at board meetings and presenting another to management as other senior management officials of the bank (such as the finance director), attend all the board meetings.

154. Regarding the high charges levied by banks, participants agreed that this is a source of concern that needs to be addressed in the context of good governance. Although banks were supposed to operate in a competitive environment, if it turned out to be the case that banks were colluding, then this was a matter for the competition commission and other competition authorities to address appropriately. The meeting was informed that in Zambia a survey was underway to look at demand and supply sides to determine whether the services being offered and charges being levied were appropriate for bank customers.

Plenary Session 4: Corporate Governance in State-Owned Enterprises

Strengthening Corporate Governance in State Owned Enterprises

155. Mr Eugene Chandi (IOD, Zambia) in his presentation on "Strengthening Corporate Governance in State-Owned Enterprises (SOEs), stated that governments are involved in commercial enterprises for economic, social and strategic reasons. He pointed out that the conflicts in the rationale for state ownership of enterprises inevitably results in generally in weak CG in SOEs and hence there is a need to strengthen them by using guidelines such as those proposed by the OECD.

156. He argued that there is a need to separate the state's ownership functions from market regulatory functions to ensure that there is a level playing field. Moreover, the operational and legal framework under which SOEs operate should be simplified and streamlined.

157. SOEs should not be exempt from the application of general laws and regulations, and the legal and regulatory framework should ensure that there is a level-playing field in markets where SOEs and private sector companies compete in order to avoid market distortions. In addition, SOEs should face the same competitive forces that private companies are subjected to. For instance, SOE relationships with state-owned banks, financial institutions should be based on purely commercial grounds

158. He indicated that the state should act as an informed and active owner and establish clear and consistent ownership policies, and ensure that the governance of SOEs is carried out in a transparent and accountable manner, with the necessary degree of professionalism and effectiveness. He further added that the State and SOEs should recognise the rights of all shareholders and accordance with the OECD Principles of Corporate Governance to ensure their equitable treatment and equal access to corporate information.

159. Mr Chandi argued that the state ownership policy should recognize SOEs' responsibilities towards stakeholders and emphasized that they report on their relations with stakeholders. SOEs in turn should observe high standards of transparency in accordance with the OECD Principles of Corporate Governance.

160. The boards of SOEs should have the necessary authority, competencies and objectiv-

ity to carry out their function of strategic guidance and monitoring of management. They should act with integrity and be held accountable for their actions.

161. In the discussion that followed, participants agreed that creating the correct legal and regulatory environment to ensure that politicians act in the best interest of SOEs, and is key to good CG. In this regard, the South African Finance Management Act was cited as a possible model to adopt.

162. The presenter pointed out that there is no accounting specific standard for SOEs. Accounting methods used for SOEs should not be in any way peculiar, and that SOEs should be audited like any other corporate entity.

163. A number of participants concurred that Boards' independence from the State is important for good CG in SOE's. However, they stressed that the independence of the SOE boards hinges on the quality of its board members and the support they offer the CEO. Furthermore, independence of the Board depends on how it is structured, and whether board members are aware of the laws, regulations and principles that govern the enterprise.

164. He stressed that civic education to the public about governance was of utmost importance to enable civil society to exercise their rights as well hold SOEs accountable. The empowerment of civil society is necessary in order to ensure that there is an understanding that SOEs belong to society. He said that the Institute of Directors in Zambia was already in the process of establishing a three-year sensitization programme in this regard.

Teleconference with the Global Corporate Governance Forum

165. Mr Phillip Armstrong (Head, Global Corporate Governance Forum, GCGF) began the teleconference by explaining that the GCGF is an initiative between the World Bank and other international organizations to promote and advance the principles of good corporate governance, and to develop corporate codes and standards.

166. The GCGF conducts workshops and meetings to promote good corporate governance (CG) and has also been involved in conducting training of directors in corporate governance. Its interventions are contingent upon the specific needs of a particular country/region and it assists by providing technical expertise. The speaker also stressed that Southern Africa countries stand to benefit a great deal from the expertise of the GCGF either individually or through the ECA at the regional level.

167. A number of concerns were raised by the participants, including:

1) The process of advancing from a corporate code to law,

2) SOE's and Privatization, and

3) King III.

168. On the question of moving from corporate code to law, Mr Armstrong underscored the importance of understanding the local environment and to adapt the codes and standards accordingly. The use of codes and standards could be a combination of different issues such as to fill a vacuum, to substitute or to reinforce an existing regulation.

169. On the issue of SOEs and privatization, he indicated that some strategic enterprises should not be privatized; instead there is a need for them to be reinforced by increasing their capacity. However, there is a need to engage senior level government staff in a discussion to see what can be done to enhance SOEs. Privatization is not a pre-condition for good corporate governance, what is needed are better-run state enterprises.

170. Regarding the question as to whether there is a need to have King III, he indicated that King II is sufficient, however it does need some reinforcement.

171. Mr Armstrong concluded by expressing his wish for the commencement of joint initiatives with the GCGF, and that he is planning to map out his ideas on these initiatives in the near future.

The Role of Ethics in SOEs

172. Mr Martin Kalungu-Banda (Office of the President: Republic of Zambia) began his presentation on 'Ethics in SOEs' by defining ethics as a question of right and wrong in the moral sense, and emphasized that an organizations' morality is expressed through the behavior of its people, particularly its leaders. Leaders carry the identity of an organization, and values determine its corporate culture.

173. The presenter defined "leadership" in terms of THE CASTLE PRINCIPLES:

C - Courage,

A - Authenticity,

S - Service,

T - Truth-telling,

L – Love

E - Effectiveness.

174. He defined the 'courage' principle as being able to face realities and having the grace to do what you think is right. The 'authenticity' principle was referred to as being able to "walk the talk" and being congruent. In terms of the 'service' principle, he stressed the importance of leading by following, humility and will. 'Truth-telling' refers to telling the truth to others and ourselves by being accurate in self-assessment and having a sound sense of one's self-worth. He advised that to create a culture of truth telling, one should lead with questions, not answers and lead through dialogue, not command. 'Love' is an

important principle because we all deserve to be respected and cared for. 'Effectiveness' ensures that results are achieved and the presenter added that, according to the Madiba Paradox, it is important to "retain faith that you will prevail in the end regardless of difficulties and at the same time confront the brutal facts of your reality, whatever they may be.

175. Mr Kalungu-Banda concluded by analyzing the difference between leadership by fear and leadership by love and said that the former causes a decay in organization whist the latter enhances and encourages creativity and innovation.

176. Participants agreed that ethical values can be explained through good leadership within an organization, and that the missing link for good CG among leaders is a lack of integrity. However, it was also mentioned that whilst good leadership is a personal choice, environmental issues may also influence the style of leadership. It was also felt that ethics should not be understood in its purely individual sense and that the organizational aspects should also be analyzed. Additionally, a particular individuals capacity to learn should not be underrated.

Zambia Breweries – A Best Practice

177. Mr Ezekiel Sekele (Zambian Breweries) explained that Zambia Breweries' corporate governance best practices, policies and strategies are influenced by the local obtaining regulatory rules and also from the Holding Company, SAB Miller.

178. He stated that key issues in CG include relationships, structure, the attainment of objectives and the monitoring of performance. He further said that Zambian Breweries realizes that CG is needed for adequate and appropriate systems of controls, transparency and accountability, for the company to be managed for the best interests of all stakeholders, and for positive relationships between management, the board and shareholders and stakeholders.

179. The participants were informed that Zambian Breweries have social investment programmes in place including sport, HIV/AIDS and education programmes, and that these programmes are part and parcel of Zambian Breweries CG and social responsibilities strategy. In addition to the above, Zambian Breweries has also been at the forefront of the introduction of sorghum beer, which has created new jobs in their community.

180. Additionally in terms of the corporate structure, due to SAB Miller's strategy to empower local people, a number of Zambian personnel have now moved into senior positions.

181. Mr Sekele concluded by stressing the importance of managing stakeholder relationships, employees and business partners to ensure cooperation from all spheres.

182. During the discussion session, the presenter provided more information on the relationship between SAB Miller and Zambian Breweries. He said that since SAB Miller is the holding company, Zambian Breweries adheres to its policies and practices and that this

kind of relationship creates synergies, which are mutually beneficial to both. For example, employees of the Zambian Breweries have been able to acquire expertise from their counterpart from the SAB Miller and, as a result, have been able to take over positions that were formerly occupied by expatriates.

183. The participants agreed that when referring to employment created through foreign investment, it was necessary to consider the quality of the jobs created. Concern was expressed that, at times, locals are relegated to menial jobs, resulting in little transference of skills. The meeting was informed that Zambian Breweries had a concrete program for staff development and that most management posts have now been taken over by Zambians. Additionally, the company's social investment program had created 4,000 jobs mainly for small-scale farmers to grow sorghum.

The Role of Politics in the Governance of Institutions

184. Professor Carlson Anyangwe (University of Zambia) presented a paper on "The Role of Politics in the Governance of Institutions." He argued that corporate governance (CG) does not function in a vacuum and that politics is deeply embedded in the way state institutions are governed. The governance of institutions, therefore, cannot be disassociated from broader political issues, policies, trends and developments within a country.

185. The presentation focused on two areas of interest:

1) Politics, Lawmaking, law application and law enforcement

2) Politics and Socio-Economic Development.

186. With regard to politics and law, he said that to assume that laws are neutral and integral is fallacious. According to him, all law is interest-based and follows the ideology of the lawmakers. Lawmaking is essentially a political activity and the role of politics in it is not only open but is regarded as legitimate. Also, the application of the law is not neutral because judges, like all human beings, have prejudices and weaknesses and hold political views. Furthermore, the role of the judiciary in politics or the political role of the courts is evident in such matters as human rights cases, treason and political repression. Additionally, the political use of the courts is often witnessed in the frequent invitation to the judiciary for a partnership with the Executive in the maintenance of law and order.

187. In terms of enforcement, he referred to the politicization of the police and the fact that white-collar criminality i.e. corporate theft and corruption, is rarely dealt with. Such discriminatory and selective enforcement of the law cannot possibly be justified on the ground of a lack of resources and the presenter pointed out that politics must be a significant factor.

188. He further added that the law in many countries needs renewal as many laws in the sub-region date back from the colonial era. However, there is not much political will to change these laws as they generally favor the governments in power.

189. With regard to the linkages between politics and socio-economic development, he stated that social and economic development takes place in a political context and within a particular legal framework i.e. in terms of labour regulations, rules on land ownership and human rights. He mentioned that, for example, labor regulations and investment are, to a great extent, influenced by political ideology. Many governments in the sub-region have modified their national labour and social legislation in order to establish export-processing zones. It was noted that the nexus between politics and economics is self-evident and that each impinges on the other. Even if purely economic arguments are cogent, they can always be overcome by political considerations

190. Prof. Anyangwe made a reference to the paradigm shift in recent years, stemming from the changing role of the State and the inherent increase of strategic partnerships between government, CSOs and the private sector. These partnerships had become a political and operational imperative to enhance service delivery, especially to the rural areas.

191. He concluded by stating that the governance of state institutions cannot escape the power and pervasive influence of politics and that the question that remains is whether that influence is baneful or beneficial.

192. In the discussion session, participants felt that the linkages between government policy and corporations needed to be stressed. Additionally, they called for measures to institutionalize rules for corporations, and to lobby for policies at government level. It was also recognized that the need for development will not be taken into account as long as the ideology behind politics has more to do with concerns of how to stay in power.

193. Another issue of concern was the capacity of lawmakers to revise the old and colonial laws, and it was agreed that much needed to be done in this regard. It was concluded that the legal frameworks that govern Boards are dictated by political forces and, as such, they are not independent. In the final analysis, the performance of most SOE boards depends on the individual character of board members.

IV. RECOMMENDATIONS OF THE WORKSHOP

194. The workshop participants were divided into three thematic breakout groups according to the following areas of specialization - extractive industries, financial intermediation and state-owned enterprises. Based on the deliberations that had taken place over the previous two days, each breakout group was tasked with identifying four main challenges, and a number of recommendations for their solution and the way forward.

195. The following challenges and recommendations were identified by each breakout group as shown in the table(s) below:

BREAKOUT GROUP I: – Corporate Governance in the Extractive Sector

Challenges	Specific area(s)	Strategies/ Recommendations
1. Stakeholder Management	Training/Capacity Building Local Economic Value Access to Information Reporting. Reputation and Risk Management Labour Standards and Conditions	Training /Capacity Building for all Stakeholders Commitment to Dialogue Establish sub-regional/national stakeholder fora for promoting good CG. ECA to inform PACGF to establish sub-regional/national forum
2. Economic Viability of Enterprises	Market Access	Operators play proactive role in trade negotiations

Challenges	Specific area(s)	Strategies/ Recommendations
3. Environmental Sustainability	Environment as a Production Cost Environment as the Outside	Internalize environmental costs by all stakeholders Building capacity for all stakeholders Adopt policy/legal space to encourage involvement of all stakeholders
4. Policy Predictability/ Stability	-	GCG Forum to act as platform for organized interest representation and act as watchdog for policy GCG(sub-regional/national level) to promote transparency and access to information

BREAKOUT GROUP II: Corporate Governance and the Financial Sector

196. Recognizing that there is a lack of corporate governance appreciation and implementation of corporate governance principles in the financial sector of the sub-region, the workshop recognized that the following are the major constraints and challenges that have to be overcome to create an environment in which corporate governance principles will be appreciated and practiced:

Challenges	Recommendations
1. Lack of political will in the implementation of CG in the financial sector	Advocacy on the benefits of CG to the leadership in politics, business community and civil society Include CG agenda at high level fora such as SADC Summits and financial sector ministerial conferences Strengthen autonomy of oversight functions such as ombudsman, auditors general and parliamentary oversight committees.

Challenges	Recommendations
2. Lack of appropriate legal (CG codes) and regulatory systems	Incorporation of CG codes with national legislation Create institutional capacity for the formulation and implementation of legal and regulatory systems for CG such as IOD, alternative dispute resolution centers, monopolies or Anti-Trust Competition Commission. Sensitize all financial sector regulators into memoranda of understanding on CG, localize appropriate CG codes to individuals countries.
3. Ethical/profit maximization dilemma	Encourage financial institutions to adopt ethical and environmental friendly policies and practices. Sensitize and build capacity among stakeholders incl. civil society and trade unions. Incorporate CG principles in national visions and development plans. Public recognition of CG practitioners by national CG implementing agencies such as IOD.
4. Lack of human and financial capacity	Sourcing and budgeting funds to support CG development for training director and public awareness campaigns.

BREAKOUT GROUP III: Corporate Governance and State-Owned Enterprises

Challenges	Recommendations and Responsible Parties (RP's)
1. Weak/Inadequate governance framework	Replace existing government framework with one that conforms to contemporary business principles - Redefine structures e.g. board and organization structure; - Specify clear roles and duties of the board and organizational structure; - Establish sub-committees e.g. audit, renumeration and planning committees. - Specify clear role to management - Appoint competent senior managers - Implement performance contract - Establish tenure of board and senior management - Implement staff development programme RP's: Govt's, ECA, WB, UNDP, relevant stakeholder.
2. Inadequate/Inappropriate Legal Framework	Repeal and replace existing laws with one which is a product of consensus with government and all stakeholders - Specify clear objectives and functions of SOE's; - Define relationship between board v's shareholders; - Board empowerment of CEO appointment; - Establish a common regulatory body to oversee good business practices in SOEs RP's: Same as previous

Challenges	Recommendations and Responsible Parties (RP's)
3. Lack of spirit and culture of enterprise	Establish a programme of capacity building to bring in modern entrepreneurship culture; - Good practices – SOEs to be run like a private institution; - Address leadership issues; - Decentralize decision-making – link performance based appraisal system RPs: Same as previous
4. Inadequate Capitalization/ Resource	Government should facilitate means for SOEs to realize their missions: - Develop innovative business plan - Adequate funding through structures framework - Capacity building RPs: ECA and World Bank

V. CLOSING SESSION

197. In the closing session, the Director of ECA-SA, Ms. Jennifer Kargbo, expressed her appreciation to the participants for their invaluable contributions over the three days

198. She stressed that ECA needs every institution to provide input into the corporate governance (CG) agenda for the Southern African sub-region. To this end, the Director proposed to form partnerships between ECA and particular institutions, and expressed her plan to establish a network of focal points that would act as a working group that would be tasked with mapping the way forward for the sub-region and to source funds for future activities. A number of representatives/institutions were proposed as core members of the team including from the BOZ, IOD, KCM, Copperbelt University and the Office of the President (Zambia)

199. The Director informed the participants that the products of the workshop would include two documents – 1) the statutory document with the proceedings and discussions of the workshop 2) a technical publication. Participants were advised that both documents will be sent to them in draft form for their final input before publication.

200. In conclusion, a special thanks was extended to the facilitators - Mr Martin Kalungu-Banda, Mr Mumba Kapumpa, Professor John Lungu, and John Machayi for their tireless efforts and dedication. A special thanks was also extended to Mr Ejeviome Otobo for his valuable insights and for taking time to travel from Headquarters in New York to support the workshop. The Director also thanked the ECA staff from both Addis Ababa and Lusaka for organizing the workshop. Finally, Professor Lungu thanked the staff of ECA-SA and the Director on behalf of all participants.

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Annex II: Programme of Work

DAY ONE 7th December 2005	
08.30-09.30	Registration
09.30-10.00 Chair: Mzwanele Mfunwa	Official Opening 1) Welcome Remarks: Jennifer Kargbo, Director, ECA Southern Africa Sub-Regional Office, (ECA-SA) 2) Official Opening by Guest of Honour (Dr. Fundanga, Governor, Bank of Zambia) 3) Workshop Objectives, Methodology and Ground Rules: Doreen Kibuka-Musoke, (ECA-SA)
10.00-10.45	BREAK
10.45-13.00 Chair: Jennifer Kargbo	Plenary Session 1: “Economic and Corporate Governance and Accountability in Africa - concepts, issues and trends” PANELISTS: ECA and Corporate Governance- Some Pressing Issues Mzwanele Mfunwa, DPMD, Economic Commission for Africa (ECA), Ethiopia Corporate Governance in Africa: Issues and Challenges - Professor Akinboade, Department of Economics, University of South Africa (UNISA) Corporate Governance: External Influences V’s Internal Considerations – Managing the Balance in Africa Ejeviome Otobo, Chief, Office of the Special Adviser for Africa, UN, New York Pan-African Corporate Governance Forum – recent developments. Mr Eugene Chandi, Director, Institute of Directors, Zambia
13.00-14.00	LUNCH
14.00-15.00 Chair: Mzwanele Mfunwa	**Special Presentation No.1** Overview of Economic and Corporate Governance and Accountability in Southern Africa” – Professor John Lungu, Department of Economics, Copperbelt University (CBU)
30.30-30.30	BREAK

15.30-17.30 Facilitator: Ejeviome Otobo	Plenary Session II: THEME ONE "Corporate Governance and Extractive industries" The Importance of Corporate Social Investment – Augustin Seyuba, Vice President, Konkola Copper Mines (KCM) Corporate Social Responsibility – Martin Kalungu-Banda, Special Advisor to the President, Office of the President. Sustainability reporting in extractive industries - Markus Reichardt, Consultant, URS, South Africa
	Case studies: DEBSWANA Corporate Social Responsibility – Social Investment Activities, Joe Matome, DEBSWANA (de Beers, Botswana), Botswana Corporate Governance and the Extractive Industry in Zambia, Professor John Lungu, Copperbelt University, Zambia
17.30-18.00	Wrap up of Day One by facilitators
DAY TWO 8th December 2005	
09.00-11.30 Facilitator: Professor John Lungu	Plenary Session III: THEME TWO "Financial Intermediation and Corporate Governance" The Role of Corporate Governance in the Banking sector - Chisha Mwanakatwe, Director of Supervision, Bank of Zambia The Role and Status of Capital and Financial Markets in Southern Africa - Mumba Kapumpa, Vice President, IOD. The Role of Corporate Governance in Financing Projects - Lewis Musasike, Vice President, Development Bank of Southern Africa (DBSA), South Africa. DISCUSSION The FSDP and corporate governance in the financial sector in Zambia - John Machayi, Manager, Finance Bank The Role of Corporate Governance in the Promotion of Investment – Oswald Mungule, Consultant, ECA Corporate Governance and Entrepreneurship – David Govere, Chairperson, Southern African Chapter, African Business Round Table (ABRT), Zimbabwe DISCUSSION
11.30-12.00	BREAK

12.00-13.00	Case studies: Financial Intermediation and Corporate Governance in South Africa – The case of NEDBANK – the Equator Principles Amith Singh, Business Governance, NEDBANK South Africa. Financial Intermediation and Corporate governance in Zambia – the case of the DBZ - Bwalya Ngandu, Managing Director, Development Bank of Zambia (DBZ)
14.14-14.0	LUNCH
14.00-16:00 Facilitator: Mumba Kapumpa	Plenary Session IV – THEME THREE "Corporate Governance in State-Owned Enterprises (SOEs)" Strengthening Corporate Governance in State-Owned Enterprises – Eugene Chandi, IOD, Zambia
	14:30-15:00hrs TELECONFERENCE FROM WASHINGTON DC WITH PHILIP ARMSTRONG - Head, Global Corporate Governance Forum and Main Editor of the King Report on Corporate Governance.
	Continued: The Role of Ethics in SOEs – Martin Kalungu-Banda, Special Advisor to the President, Office of the President, State House Zambia Breweries – a Best Practice – Ezekiel Sekele, Finance Director, Zambia Breweries
16.00-16.30	BREAK
16.30-17.30 Facilitator: John Machayi	**Special presentation No 2** "The Role of Politics in the Governance of Institutions" – Professor Carlson Anyangwe, Professor of Law, UNZA
17.30-18.00	Wrap up of Day Two by facilitators
DAY THREE 9th December 2005	
09.00-09.30	Objectives/Methodology of break out sessions: Doreen Kibuka-Musoke, (ECA-SA), Mzwanele Mfunwa and Guy Ranaivomanana (ECA-Addis)
09.30-12.00	BREAK-OUT SESSIONS
Facilitator: Professor John Lungu	GROUP ONE – Corporate Governance and the Extractive Industry

Facilitator : Mumba Kapumpa	GROUP TWO – Corporate Governance and the Financial Sector
Facilitator: Martin Kalungu-Banda	GROUP THREE – Corporate Governance and State Owned Enterprises
12.00-13.00	LUNCH
13.00-14.30	Groups report back to plenary/presentation of recommendations
14.30-15.00	Synthesis of Workshop and Closing Remarks, Jennifer Kargbo, Director, ECA-SA