MEFMI

Macroeconomic and Financial Management Institute of Eastern and Southern Africa

HIGHLIGHTS OF 2019 MEFMI COMBINED FORUM

THEME: GOVERNANCE

14 October 2019
Grand Ballroom-Almas
Hamilton Hotel Washington D.C.
1001 14th St, NW, Washington DC 20005, USA

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FOREWORD

Given the role of our client institutions as regulators and policy makers who are entrusted with delivering better policy outcomes, fostering good governance in these institutions is of paramount importance in the maintenance of public confidence in them. This not only reduces cost of policy implementation, but also increases the amount of resources available and value for money expenditures in critical areas like the social sector and investment.

In addition, better governance has the potential to crowd in the private sector, a key player in economic growth and development, through reducing malpractices like corruption, bribery, and inefficient public service delivery and providing better quality infrastructure which otherwise compound to increase the cost of doing business.

Against this background, the MEFMI Secretariat chose '**Governance**' as its theme for the 2019 Executive Fora series, which began with the Deputy Governors and Permanent Secretaries Forum, the Governors Forum and lastly the Combined Forum. The theme, in line with MEFMI's objective of raising awareness amongst policy makers in its client institutions, focused on the principles of good corporate governance, facilitators and impact of poor governance and challenges in addressing governance vulnerabilities. In this spirit, the Combined Forum of Ministers of Finance, Secretaries to the Treasury, Permanent Secretaries and Governors, was held in Washington D.C. on 14 October 2019. Delegates deliberated on the following issues:

i) Financial Sector Corporate Governance, with specific focus on why corporate governance in this sector is critical. As such, topics on board composition, selection and structures were discussed. In addition, key challenges in corporate governance in financial institutions in Africa and related examples from the Central Bank of Kenya (CBK) were explored.

ii) The International Monetary Fund (IMF) new framework for enhanced engagement on governance which related to topics on: Corruption and Government: Channels and Fiscal Costs; The Role of Fiscal Institutions; and Strengthening of International Cooperation to fight Corruption.

The various presentations and discussions gravitated on how better governance contributes to better economic outcomes.

I would like to extend special thanks to the various players who made invaluable contributions to the success of this event; Our financial partner, Crown Agents, who have continued to support various MEFMI events over the years, and the presenters at the Forum, namely Mr Paolo Mauro, Deputy Director Fiscal Affairs Department, IMF and Mr Mohammed Nyaoga, Chairman of the CBK, whose presentations triggered insightful discussions on central bank governance.

It is my sincere hope that the deliberations from this Forum will provide the much-needed guidance for countries as they develop their governance frameworks. Going forward, MEFMI is committed to designing and implementing its future capacity building interventions that take into account the issues arising from this Forum.

Michael Atingi-Ego
MEFMI Executive Director

Executive Summary

Poor governance promotes incentives and opportunities for corruption, which in turn undermines public trust in governments, compromises market integrity, distorts competition and undermines economic development.

In the keynote address to the Forum, the Minister of Finance and Economic Development of Zimbabwe, Honourable Professor Mthuli Ncube, highlighted the need to strengthen governance in institutions in the region, as this is key not only to gaining trust in citizens, but more important, for better economic growth outcomes.

On its part, the presentation by the IMF highlighted some of the key aspects of its new Framework for Enhanced Engagement on Governance and Corruption. The elements of this framework were demonstrated using a chapter in the 2019 spring "*Fiscal Monitor*" with countries that improved their governance frameworks producing better economic outcomes.

The presentation by the Chairman of the CBK was on corporate governance in the Financial Sector, justifying its critical need in the Sector. He outlined the principles of good corporate governance, and noted that while one size does not fit all, sound corporate governance practices supported by robust and dynamic laws is important in fostering integrity and development of a sound, safe, stable and inclusive financial sector.

The key take away from the presentations is that better governance leads to better economic outcomes. The fact that different outcomes are sometimes realised by countries undertaking similar economic reforms could in part be explained by the extent to which good governance practices are entrenched in these countries.

This report provides a synopsis of the deliberations made during the Forum, which are summarised below:

i) Corruption thrives in an environment of weak governance. In governments, this manifests itself in two ways, namely administrative corruption (e.g. citizens paying bribes to obtain services) and state capture (i.e. companies paying significant bribes that lead to changes in laws and regulations).

ii) There is a demand and supply side to corruption, and meaningful efforts to curb corruption have to address both sides. The demand side for example could focus on corrupt government officials and politicians while the supply side on the private sector facilitators who want to create an uneven field to their advantage.

iii) There is need to strengthen international cooperation in fighting corruption.

iv) Curbing corruption helps improve economic outcomes through improved public financial management of both revenues and expenditures. Corruption is analogous to a leaking plumbing system that delivers lower amounts and poor quality of water in the end.

v) Relatedly, strengthening fiscal institutions is akin to blocking the leakages in this plumbing system through improved integrity, accountability, transparency and strengthening of efforts to fight corruption.

vi) At the corporate level, selection process of board members should be transparent. The board should be composed of both executive and non-executive members, and must be diverse.

vii) The case of the Central Bank of Kenya is unique in Africa, where the board chair is non-Executive. This is in line with the current practice in the private sector, and is recommended by the proponents of good corporate governance.

viii) MEFMI should work with policymakers and regulators in the region to institute harmonized and appropriate capacity building programs that entrench better corporate governance practices in the Financial Sector.

1. Welcome and opening remarks

1.1 Welcome remarks: Mr. Michael Atingi-Ego, Executive Director, MEFMI

Mr. Michael Atingi-Ego, the Executive Director of MEFMI, welcomed delegates to the 2019 MEFMI Combined Forum of Ministers, Secretaries to the Treasury, Permanent Secretaries and Governors. He thanked everyone for taking the time to attend one of MEFMI's key events on its annual calendar, while noting the encouraging response received at the event in terms of attendance.

Mr. Atingi-Ego also expressed MEFMI's gratitude towards Crown Agents for its financial support towards the hosting of the lunch for the Forum.

KEYNOTE ADDRESS: Hon. Mthuli Ncube, (M.P.) Zimbabwe Minister of Finance and Economic Development

In his Keynote address, the Zimbabwe Minister of Finance and Economic Development, appreciated the MEFMI Secretariat for coming up with a very relevant theme of Governance.

He noted a common example of corruption in Africa as being state capture where private interests are influencing state decisions for its benefit. Regulatory capture is also not uncommon, especially where government institutions advance commercial or political interests rather than protecting public interests. These, when combined with lack of transparency and accountability, could become systemic, and undermine efforts to reduce poverty, inequality, creating a breeding ground for social unrest. As such, the potential for countries to reach their desired level of development is compromised. The Minister highlighted some measures that could be used to strengthen governance in the region as follows:

- Freely available Information, unless legally restricted.
- Enhancing public financial management.
- Clear mandates, roles and responsibilities in government institutions.
- Independent and well resourced oversight institutions to provide robust

checks and balances to absolute state power.

- Reducing over regulation and breaking down monopolies to encourage a competitive environment.
- Pursuing economic policies that minimise rent seeking behaviour and patronage.

In fighting corruption, the Minister noted that no one approach is suitable for all countries, given the heterogeneous set up of countries, citing the example of Zimbabwe that recently undertook a governance vulnerability assessment exercise. The process broadly followed the *IMF Enhanced Framework for Engagement on Governance* (2018) and emphasised more on fiscal governance, performance of the Reserve Bank of Zimbabwe, rule of law, Anti Money Laundering / Combating the Financing of Terrorism and Anti-Corruption strategy, and less on oversight of the financial sector and market regulation.

2. Forum presentations and discussions

2.1 Session 1: strengthening fiscal governance

Presenter: Mr Paolo Mauro, Deputy Director Fiscal Affairs Department, IMF

Moderator: Ms. Ericah B. Shafudah, Executive Director, Ministry of Finance, Namibia

The session aimed to highlight IMF's efforts in assisting its member countries, including MEFMI members, in strengthening fiscal governance. The presentation highlighted the genesis, formulation and implementation of a tool that has been developed by the IMF for use in this effort i.e. "*Framework for Enhanced Fund Engagement on Governance and Corruption*"

Previous IMF efforts to this end were highlighted including through the 1997 Governance Policy. While appropriate, its implementation was perceived to be unevenly targeting smaller economies and inclined to focus on countries that borrowed from the IMF as an instrument of conditionality. Consequently, in 2017, the IMF reviewed its 1997 Policy to address the highlighted challenge. The Framework was designed to promote a more systematic, effective, candid, and even-handed engagement with member countries regarding governance vulnerabilities. The presentation drew from the 2019 Spring *Fiscal Monitor* emphasising the following:

- Supply side and international facilitation of corruption, calling for a two pronged approach to tackling corruption i.e. simultaneously addressing the demand and supply sides of corruption.
- Enhanced public financial management is key to increasing revenue collections and minimizing expenditure leakages, with a view to increasing value for money expenditures.
- Lack of transparency in the costing/ pricing is a hotspot for corruption, citing examples of big infrastructure projects, classified expenditures and the natural resources sector.
- Using some country examples,

increased interaction of fiscal institutions and other agents of restrain to government excess was demonstrated to improve economic outcomes, increasing their GDP significantly as the level of corruption reduced.

The presenter concluded that improving governance by addressing the above factors contributes to better economic outcomes.

Key Discussion points

The following key points arose from the discussions after the presentation:

i) Increasing transparency and audit trails are important tools in addressing governance vulnerabilities, with digitalisation identified as a low hanging tool.

ii) Use of corruption perception indices as applied in the analysis is not entirely an accurate measure of corruption. This was acknowledged and efforts are underway to address this.

iii) Emphasis on addressing the role that the private sector and international actors play in inducing government officials to corrupt acts. Here it was agreed that international cooperation and raising the level of transparency in government would go a long way in addressing these vices.

iv) The IMF was called to assist members in identifying and recovering funds lost through illicit financial flows. It was however, clarified that the IMF does not have a policing role and the optimal thing to do is to share whatever information is collected on corruption with the concerned member country.

v) The role of the human element in corruption was highlighted, with systems and cultures playing an important part. If one joins an institution where bribes are a culture, it is easier to become corrupt, as the behaviour of humans is influenced by people around them. There is therefore a need to develop the anti-corruption culture in organisations.

2.2 Session 2: financial sector corporate governance

Presenter: Mr. Mohammed Nyaoga, Chairman Central Bank of Kenya (CBK).

Moderator: Mr. Keith Muhakanizi, Permanent Secretary/Secretary to the Treasury, Ministry of Finance, Planning and Economic Development, Uganda

The session highlighted the importance of good governance in the Financial Sector. The motivation for the presentation was to demonstrate that good corporate governance in a customer-centric financial sector is important for a vibrant, stable and efficient economy through related spill over effect to the rest of the economy. Specifically, effective and sound corporate governance plays a vital role in the financial sector as it enhances stability through effective risk management, as well as productivity, efficiency and effectiveness in the use of limited resources.

The case of the CBK was used to demonstrate that an independent board with a non-executive chair, can work well and effectively with the executive in running a central bank.

The presentation highlighted the following:

- *Why corporate governance in the financial sector matters,* arguing that it is key to sustainable economic growth through providing funding, effective risk management, payment systems and some monitoring services. Its effective regulation and supervision is thus a foundation for safeguarding financial stability and enhancing its integrity; and significant spill-overs to the rest of the economy.
- *Board composition:* The presentation emphasised that a combination of executive and non-executive directors on the board is key, in addition to its appropriate size, diversity, expertise and professionalism. These are important for critical debate in the decision-making process.
- *Board Selection and Structure:* Transparent selection guidelines of board members are key to good corporate governance in addition to appropriate board structures i.e. clear leadership structure, optimal size and use of committees to effectively play their oversight role. Adequate supporting committees, for example Audit, Risk and Technical Committees were also emphasized.
- *Key challenges in Financial Sector Corporate Governance in Africa*

were identified as emanating from both internal and external environment and may include consumer protection, data privacy/ security, systems availability, particularly political/conflict of interest, economic crimes such as money laundering and financing of terrorism, cybersecurity, and digital finance ecosystem, among others. Oversight boards should therefore be well-equipped to deal with these challenges.

Mr Nyaoga's presentation used the CBK as an example of a central bank that has embraced good corporate governance practices. The board oversight is largely anchored on the country's Constitution, CBK Act and separation of powers and roles between Governor and Board Chair to ensure checks and balances and the board autonomy, transparency and accountability.

Some challenges were also highlighted which include among others, slow political process in appointment of board members, right mix of skills sets, less than robust supporting legal and institutional frameworks for effective cooperation and collaborative initiatives. These challenges are notwithstanding the opportunities indicated below:

- Leveraging on technology and innovations was identified to address emerging risks in the financial sector i.e. fraud, AML/CFT, cybersecurity.
- Skills mix to mine the open and big data to extract useful information.
- Strengthening value system of institutions.
- International cooperation for peer learning aimed at strengthening institutional capacities.

Key Discussion points

The discussions mainly reacted to the proposed way forward in the presentation, including the role of MEFMI. Key points included the following:

i) Some scepticism on the CBK model, as it may reduce the independence of the Board. The presenter explained that this has not been the case, as the roles and mandate of the Board and the Governor are clearly defined.

ii) Whether a threshold level exists for the adaption of the CBK governance model, to which it was broadly agreed that one size does not fit all countries, though good governance practices should apply to all and countries should strive to achieve this.

iii) MEFMI to come up with a database of good governance practices in its member countries.

iv) Good governance practice was seen as the missing bit when central banks don't separate the role of Board chair from that of the Governor.

2.3 Remarks by Crown Agents

Mr Albert Maasland of Crown Agents, who financed the Combined Forum lunch, gave the closing remarks and noted the Forum had demonstrated the important role of MEFMI in capacity development in the region.

He said Crown Agents was pleased with the quality of the Forum and expressed interest to continue collaborating with MEFMI.

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3. Vote of thanks

Mrs. Motena Tsolo, Permanent Secretary in the Ministry of Finance Lesotho gave the vote of thanks. She noted that the issue of governance is critical to the region as most MEFMI member countries are facing significant challenges in this area.

She thanked Honourable Minister Ncube for sharing his experiences on governance vulnerabilities and in particular, the case of Zimbabwe. She was hopeful that Minister Ncube's remarks would encourage further thinking on how to tackle the challenges of governance, which while unique to member countries, it is the duty of policy makers to uphold the tenets of good governance based on internationally accepted frameworks.

She thanked Mr. Paolo Mauro and Mr. Mohammed Nyaoga, for their insightful and thought provoking presentations and the vibrant discussions that ensued; her counterparts, Ms. Ericah Shafudah, the Executive Director in the Ministry of Finance, Namibia and Mr. Keith Muhakanizi, Permanent Secretary / Secretary to the Treasury in the Uganda Ministry of Finance, Planning & Economic Development, for ably moderating the two sessions.

She also thanked Mr. Albert Maasland, the CEO of Crown Agents for closing remarks and noted that for the past three years, they had provided financial support for the Deputy Principal Secretaries and Deputy Governors Forum in addition to sponsoring the lunch for the 2019 Combined Forum.

She thanked the MEFMI Secretariat for organising a very successful Combined Forum, which is the only event that she was aware of in the region that brings together under one roof, Ministers, Permanent Secretaries and Governors to deliberate on a common theme. She noted that the Combined Forum provides an opportunity to enhance member's networks.

She thanked all the participants to the event and noted that issues discussed in the Fora can only be implemented effectively if there is collaboration and good coordination amongst all the various actors.

Notes