# THE INSTITUTE OF CORPORATE GOVERNANCE OF UGANDA

## THE 14TH CORPORATE GOVERNANCE PUBLIC LECTURE, 2019

**THEME: Corporate Culture: Enforcement, Values and the Practice – Fostering Uganda's Middle Income Status"**

**Fred K. Muhumuza, PhD**

School of Economics
Makerere University

8th August 2019

Kampala Serena Hotel

This Corporate Governance Public Lecture of 2019 is the 14th in the series and is running under the theme, **"Corporate Culture: Enforcement, Values and the Practice – Fostering Uganda's Middle Income Status"**. We are grateful that His Excellency the President and topmost stakeholder in the drive for middle income status has graced the occasion.

It is a privilege and an honour to be here to present this Lecture that is aimed at highlighting the importance and role of Corporate Governance practices in the implementation of development programmes by both Government and Private sector. Corporate governance provides a set of systems, processes and principles that ensure proper management of development processes in the best interest of all stakeholders.

Apart from the $14^{th}$ day of every year being my birthday, I can only associate myself with this $14^{th}$ Public lecture through both my economics background that is linked to middle income status and my engagement with governance through participation in the board level processes of various organizations. My engagement in development policy spans close to 25 years and has not only been flavoured by academic research but also practice at the highest levels of Government as Economic Advisor to the Minister of Finance, who by implication is the President.

I have closely engaged with development processes and appreciate the desire and strategies of Government to transition the country to middle income status. As a development economist with exposure to the political economy of policy formulation and implementation, I have a good appreciation of both the soft and hard requirements of development. I am convinced that reaching middle income status will require going beyond programme design and implementation to resolution of weaknesses in corporate governance across the public, the private sector, civil society and communities.

I am here to highlight the role of the key principles of governance in the development agenda. They include: Transparency, Responsiveness, Equity, Inclusiveness, Effectiveness, Efficiency, Accountability, Participation and Consensus. Good governance requires fair legal frameworks that are enforced by an impartial regulatory body, if the principles corporate governance are to be enforced for the benefit of all stakeholders. The management of interdependent and highly complex aspects of national development requires clear rules and guidelines that go beyond individual interests.

Humanity by nature has strong tendencies of greed that can and often lead to self-destruction. Lessons from one of the most complex and versatile systems on earth (the human body) provide us with relevant examples of how corporate governance practices of regulation and control have propagated human survival.

During the process of digestion parietal cells produce hydrochloric acid which helps to break down food. The acid is so concentrated that one drop would dissolve a piece of wood. As control measure of managing the human body against its intended zeal to digest whatever comes in, the epithelial cells protect the stomach by producing and secreting a bicarbonate-rich solution to coat the mucosa. Bicarbonate, which is alkaline neutralizes the acid secreted by the parietal cells. The continuous supply of bicarbonate is the primary way the stomach protects itself from the acidic environment and keeps the stomach from digesting itself. The process can be interfered by problems within the blood supply system or the pylori bacteria leading to ulcers and possible death.

I speak with a relatively high degree of authority having been exposed to significant learning of governance through institutions such as World Vision and Indian based Banks that have a global dimension and a local footprint. Needless to say, I have greatly benefited from activities of the Institute of Corporate Governance of Uganda (ICGU) through training and association as a requirement of Bank of Uganda. The Institute continues to equip Directors and Senior Managers of enterprises and NGOs with best practices in corporate governance through generic and specialized training programmes.

I must at this point appreciate the contribution of the Central Bank in promoting corporate governance in Uganda. The Bank has been at the forefront of demanding Directors of regulated financial institutions to undergo corporate governance training, which is later spread out to other sectors where these Directors work. Furthermore, the Central Bank is a major supporter of the Institute.

At this point, I wish to call upon the H.E the President as a fountain of honour and topmost stakeholder in the drive for middle income status to continuously lead the mainstreaming of corporate governance principles across government. It is true that most of the challenges being faced by Government in terms of delays in implementation of development initiatives and realization of limited outcomes are simply a symptom of the underlying cause of weak governance systems.

A review development strategies for various countries that have experienced significant growth rates in the last 50 years provides strong evidence on the importance of high level decision making and governance of macroeconomics and public administration to development. Singapore, Hong Kong, and Taiwan have little or no record of external borrowing but rather strict adherence to principles of governance in both the public and private sector.

Realization of middle income status demands that the state works with other actors and share its power in the growing complexity of current societies and the emergence of what Rittel and Webber, called 'wicked problems' in 1973. Such problems are inherently resistant to a clear and agreed solution, and create a high level of conflict among stakeholders, to the extent that people fail to agree about the problem itself nor its solution.

The resolution of wicked problems require the establishment of collaborative processes between public agencies, civil, society and business organizations. The management and governance of complex and interdependent societies will not be possible unless the sense of responsibility among the many social actors is converted into one of co-responsibility" – the essence of corporate governance. Reaching middle income status demand adoption of policies and systems in which public agencies engage with private sector entities and citizens in the decision-making and implementation process that are transparent, responsive, effective and accountable.

Looking back, I have no doubt that the high growth rates Uganda sustained in the 1990s benefited from the strong macroeconomic policy environment, and fairly good governance levels across government including the National Resistance Council (NRC). For example, the reduction of inflation from triple to single digits (less than 10 percent) was largely a result of strategic investments and fiscal discipline that was strongly enforced by the Ministry of Finance with equally strong stewardship of the NRC.

In 1993 when exports were close to USD 200 million against imports of slightly over USD 510 million there was no room for error and the country survived by being frugal and focused on getting the job done. At the time, government agencies were able to use the meagre resources to deliver not only the reconstruction and recovery agenda but also impactful growth that begun the downward trend of poverty reduction. Certainly the recent reversals in some of these results have more to do with less corporate governance. Excuses of drought and regional wars are typical symptoms rather than causes.

The current lapses in failure to utilise and wrong use of public resources that is coupled with delivery of suboptimal results is a clear signal of problems beyond the size of the government budget. The key message is economic and social policies are simply part of the development puzzle. For the country to realize middle income status, it has to rely on logical reasoning in order to know where, how and when to place the different pieces of the development puzzle. It os only through logic developed under the principles of corporate governance that development initiatives such as roads, energy, skills development, natural resources management, security and agricultural inputs will deliver the desired results.

Higher level decision making requires teams that are structured to meet the different needs in terms of skills, experience, managing business relationship, funds mobilization and supervision among others. The structuring and management of such teams for effectiveness is the core of corporate governance. While successes in the military across the world may be attributed to fire power and intelligence information, no one should ignore the significant role of logical strategies especially in the area of how and when to engage.

In Uganda, the design of national development plans and strategies is based on segmented information (given the sector-wide approaches). The implementation is also affected by lack of adequate insight, oversight and foresight geared towards a common end. My experience as a scholar and a practitioner in the development space speaks to a fractured government structure. Matters of strategic level planning have been left to operational level entities called MDAs. At this level every problem is matched with an operational level solution that is often very restrictive. Thus, a traffic jam is seen as a problem to be resolved by building flyovers, and yet it is more related to lack of public mass transport since most cars have one or two people. Similarly, resolution of corruption is expected to come from a multiplicity of reactive agencies (Anti-corruption court, Inspectorate of Government, PAC, AG, etc.) While the contribution of these is critical, it is even more important to take proactive approaches through strengthening of corporate governance.

Lessons from our history indicate that resolution of inflation involved strategic decisions in fiscal policy rather than reactive approaches of borrowing to issue funds and borrowing to mop them out. While the stock of treasury bonds (government borrowing) was zero in 1996, it has grown to 10.7 percent of GDP in 2018. As a consequence, the stock of treasury bills (a monetary policy strategy from controlling inflation) has increased from 1.6 percent of GDP to over 3.4 percent over the same period. These trends have contributed to the interest payment of UGX 3 trillion. Part of this problem would be resolved through proper strategic planning to address the real underlying problems not symptoms and doing so in a more holistic and efficient way that avoids borrowing for entities that offer suboptimal results or even fail to utilize borrowed resources.

***More examples will be provided subject to time constraint.***

Finally, once an Advisor to Government and the community always an advisor. I now take the pleasure to share seven views on the way forward. The number seven is both a political coincidence and spiritual reality of completeness.

1. It is my considered opinion that, while the restructuring of government may take more time given the complex political economy, the roll out of corporate governance principles and structures should not wait. After all, improvements in corporate governance will be central to the making of proper decisions during the restructuring process besides giving government a low hanging fruit on the journey to middle income status.

2. Institutionalization of Corporate Governance requires and anchor agency with government as a major interested party and stakeholder. The Government must be the champion of corporate governance processes across all spheres of society and the economy. The increase in a number of agencies and individuals providing training in corporate governance is a clear manifestation of the growing demand following realization of its role in programme efficiency and effectiveness.

   However, the growth process has underlying risks of infiltration by quack service providers that will undermine quality and purpose. It is therefore important that the space be organized with the ICGU providing leadership as the anchor organization. Managing the transformation process will certainly require government support to engage at higher levels of promotion and scaling up corporate governance principles.

3. Given the importance of corporate governance to the country's development drive, the required training and practice should not be left as an option but rather a pre-condition. All officials in senior leadership and decision making circles of the public sector should be required to acquire or have acquired at least the basic principles of corporate governance. There is need to mainstream common rules and practices across the entire public and private sector for proper coordination of development interventions.

There is a need for an anchor agency to represent the interests of governance professionals and actors. The ICGU should be mandated to provide a Certificate of compliance in this regard. The Institute should also be tasked to coordinate private actors and agencies of Government to come up with proposals of legal reforms that are needed to anchor the teaching and practice of corporate governance in the country.

4. Drawing lessons from our peers in the quest for development that creates employment for growing populations, The Government of India has recently (in 2013) amended its Companies Act of 1956 to enhance emphasis on corporate governance through board and board processes responsible for hindsight, insight, oversight and foresight. The emphasis is to enhance the systems by which public and private entities are directed and controlled. The new law emphasises independence of directors, strengthening of internal audit committees and their protection from management, management of related party transactions, and disclosure requirements in financial statements.

5. Government as a major stakeholder in entities it owns and supervises at Ministerial level should not have a controlling stake on the Board through its current or immediate former employees. Independent institutes such as the ICGU should be required to provide vetting advice to government on suitability and appropriateness of proposed candidates.

6. The corporate governance agenda's key goals (empowerment, inclusion, participation, integrity, transparency, and accountability) should be built into workable solutions. We should not simply comply because some foreign agency and development partners have asked us to do so but because effective solutions require commitment to these goals. Otherwise, the blind pursuit of good governance will not deliver the middle income status the country desires and deserves.

7. In our quest to mainstream corporate governance, it is important to acknowledge what works – and disregard what does not. However, it is even more important to establish the rules and procedures for guaranteeing the principles of corporate governance in order to contextualize any deviations that come with unique conditions. Just like the Traffic Police make an occasional allowance for drivers to go through the Red Lights, the true North remains clear as is adhered to under the normal conditions. The deviant behaviour should be the extreme exception rather than the norm as it is presently the case in several public and private sector organization.

Your Excellency, distinguished guests, ladies and gentlemen, I submit.