4th Specialized Technical Committee on Finance, Monetary Affairs, Economic Planning and Integration
Experts Meeting
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Eco/STC/MAEPI(IV)/EXP/14
FRAMEWORK FOR THE DEVELOPMENT
OF THE AFRICAN UNION GUIDANCE
NOTE ON CORPORATE GOVERNANCE

February 2020
1. BACKGROUND

The APRM is a self-monitoring mechanism to encourage the adoption of policies, standards and practices that lead to political stability, high economic growth, sustainable development, and accelerated regional economic integration; through the exchange of experiences, and reinforcement of best practices including identifying deficiencies and assessing the needs for capacity building of the participating countries.

To date, forty Member States of the African Union have voluntarily acceded to the APRM.

Since the APRM’s inception, member states have been assessed on four main thematic areas, namely, Democracy and Political Governance, Economic Governance and Management, Corporate Governance and Socio-Economic Development.

The APRM has special support agreements with five (5) African-based institutions designated by the Forum of participating Heads of State and Government. They are the African Development Bank (AfDB), UN Economic Commission for Africa (UNECA), United Nations Development Programme (UNDP) Regional Bureau for Africa, Mo Ibrahim Foundation and the African Capacity Building Foundation (ACBF). These organisations support the Mechanism in the conduct of the country evaluations.

In 2016, the Heads of States and Government adopted an agenda to revitalise, restore, reinvigorate and renew the APRM in order to address the immediate challenges faced by the Mechanism. The agenda identified six key priority areas; i) Revisiting the philosophy of the APRM; ii) Revising the review methodology; iii) Ensuring compliance with APRM principles; iv) Resource mobilisation; v) Integration of the APRM into the AU system; and vi) The role of the APRM in Monitoring AU agenda 2063 and the post-2015 Sustainable Development Goals (SDGs).

This Framework is in reference to the specific key priority areas; i) ii) and iii), which have been translated into the renewal pillar of the APRM 2016 – 2020 Corporate Strategy, “the review, refinement and further development of APRM tools and processes, including its research and information gathering instruments for drafting the Country Self-Assessment Reports.

The Renewal phase involves re-imagining the philosophy behind the APRM so as to ensure the Mechanism stays relevant to Africa in the changing world”. To implement this strategy, the APRM will among others undertake annual reviews of the thematic areas; concepts, tools and reporting focus.
2. OBJECTIVES:

Since its inception 16 years ago, APRM has conducted 23 reviews to assess the level of compliance with corporate governance standards and practices in members states. The review findings indicate either a high level of non-compliance with country corporate governance rules in cases where members states have put in place a corporate governance framework. On the other hand, the findings indicate that some member states have not put in place a corporate governance framework. Ordinarily, the corporate governance frameworks that do exist in member states are by far and large borrowed from Western/global standards and principles of corporate governance, which tend to be applicable to business environments that exist in developed countries.

However, in the present business landscape, “Glocalization” has become a pressing business strategy to adapt global standards of products and services to the local environment, and in the same breath, it is important that regulatory agencies, via ratified policies, reflect such trends in terms of effectively adapting global protocols to the local African context. Thereby, this justifies an African corporate governance Guidance Note framework which would resonate within the African context by reflecting its internal variables based on current social, economic, and political systems; in order to provide a viable platform for businesses in Africa to operate efficiently.

Furthermore, the recent establishment of the African Continental Free Trade Area Agreement (AfCFTA) is intended to bring together fifty- five African countries with a combined population of more than one billion people and a combined GDP of more than $3.4 trillion (AU, 2019). By creating a single continental market for goods, services and investments, the AfCFTA necessitates the harmonisation and coordination of governance instruments and policies for the private and business sectors, the main actors in the ecosystem of the AfCFTA.

The development of the African Guidance Note on Corporate Governance will contribute towards the harmonisation and greater enhancement of coherence of corporate governance practices on the continent, ensuring a better coordinated and seamless application of governance standards by the private sector regardless of the jurisdiction the it operates within the AfCFTA. This is a fundamental aspect towards the success of the AfCFTA.

The Review Findings of APRM have revealed commonalities in the challenges faced by member states...
with regard to compliance with corporate governance standards. The APRM findings reveal that:

- The private sector is largely dominated by the informal sector and Small, Medium Enterprises (SMEs)
- Organizations exhibit characteristics of different stages of adoption of good corporate governance depending on the size of industry;
- With regard to the SME sector and informal sector, there are largely no Corporate Governance standards and practices. The Informal sector and SME businesses also face several constraints to doing business including lack of skills and capacity, access and cost of credit challenges.
- Furthermore, the informal sector and SME sector often find no relevance between their small or informal business and the existing corporate governance rules. Often, the word “corporate” implies
that such rules are applicable only to large businesses.

- A majority of large companies especially in the financial sector, which is often regulated by the Central Banks, adhere to standards. Similarly, there is greater adherence in listed entities.
- State Owned Enterprises operate in key sectors of the economy. However, they face several challenges including poor corporate governance and that limit their capacity to effectively contribute to the economy.

The Reviews have also revealed the following:

- **Shareholders and Stakeholders**: In countries with a well-developed stock market, there is often a palpable lack of shareholder activism, conflict of interest of service providers in overlapping industries, and minority shareholder protection. While legislative mechanisms for protecting the rights of stakeholders and whistle blowers often exist in law, implementation is necessary so rights can be realized; and
- **Gender**: A key issue is the lack of adequate representation of women in the formal sector, and especially in the higher echelons of commerce and industry. This is often reflective of socio-cultural norms.
- **Access to finance**: access to credit and support to enterprise, especially SMEs is often lacking. Some countries have no collateral registry for moveable assets, and not developed credit bureaus or fair reporting laws.
- **Sustainability**: While many APRM member states have appropriate legislative frameworks for environmental protection, challenges to the environment include air and water pollution including spillage of untreated waste; rampant urbanization; rural to urban migration; and road congestion.
- **CSR** – African culture has a traditional focus on giving back to society and community empowerment, UBUNTU. CSR is not formalized or institutionalized. CSR benchmarks e.g. codes used in developed countries are absent. The approach is informal based on intuition and a personal sense of ethics and integrity.

*Given the findings of the APRM reviews, this project seeks to develop The AU Guidance Note on Corporate Governance which will be fit for purpose and appropriate for the size and maturity of*
businesses within the African context, taking into consideration the different stages of development within member states.

3. SCOPE OF WORK, PROJECT PARTNERS, DELIVERABLES AND TIME FRAME

3.1 SCOPE OF WORK

The APRM Secretariat has commenced with the development of the AU Guidance Note on Corporate Governance. The development of the Guidance Note shall:

- propose a framework for the AU Guiding Standards on Corporate Governance; and
- propose a framework for the Toolkit on Minimum Requirements for Corporate Governance for member states.

The Development of the AU Guidance Note is being undertaken in recognition of the fact that the existing challenges within member states with regard to corporate governance, require a solution that addresses the unique challenges facing the private sector on the continent.

3.2 PROJECT PARTNERS

The implementation of this project will be executed by the following Project Partners:

(i) The African Peer Review Mechanism (APRM)
(ii) The African Development Bank
(iii) The African Network on Corporate Governance
(iv) The UN Global Compact

3.3 The ADVISORY GROUP

The Advisory Group of this project is composed of representatives from the following Member States:

- The Project partners
- The Arab Republic of Egypt – Still awaiting confirmation
- The Federal Republic of Nigeria
- The Republic of Kenya (informal sector)
- The Republic of Rwanda – Still awaiting confirmation
- The Republic of South Africa – Still awaiting confirmation
- The Republic of Cote d’Ivoire
- The Republic of Congo
- The Republic of Mozambique – Still awaiting confirmation

3.4. The EXTERNAL REVIEW GROUP

- OECD
- FTI Consulting
- Law Firm/Auditing Firm(tbc)

3.5. ROADMAP

We have undertaken the following five progressive processes for the development of AU Guidance Note on Corporate Governance:

a. **PHASE 1 - An Inception Report (MAY 2019)**

   This is a literature Review of global trends, emerging paradigms and various regional frameworks of corporate governance. The review will look at three categories of literature;
   i. APRM documents;
   ii. APRM Strategic Partners’, African Union and Member States’ documents; and
   iii. External documentation and publications from selected institutions.

The literature review included, but was not limited to the following documents:

i. APRM Country Reports - Corporate Governance Assessment Reports and NPOA
ii. AU Organs Reports – in particular AGA
iii. Select private sector firms - Corporate Governance Reports
iv. The World Bank Country Assessment Reports on the Observance of Standards and Codes- Corporate Governance
v. Methodology for Assessing the Implementation of the OECD principles of Corporate Governance
vi. Institutional Frameworks and Guidelines of Multilateral, Bilateral and Regional Institutions
Corporate Governance

vii. Scholarly/Academic Reports for Corporate Governance in Africa from leading academic institutions
Key Milestone: An Inception Report outlining the:

(i) Emerging global and regional trends on Corporate Governance;
(ii) Governance assessment frameworks from various institutions; and
(iii) Key recommendations based on the outcome of the desk review.

b. **PHASE 2 - Regional Consultations** – (July 2019 – January 2020)

- Prof. Amon Chizema (Lead Consultant): South Africa, Mozambique, Kenya, Nigeria (tbc)
- Prof. Karim Ben Khalia (Consultant): Egypt and Morocco
- Prof. Babacar Ndiaye (Consultant): Senegal, Cote d’Ivoire and Chad

These consultations involved discussions soliciting feedback on identified areas for improvement as well as feedback on proposals for improvement from a variety of state, non-state and private institutions.

The consultations included:

i. National structures of the APRM in member countries
ii. Private sector (select key sectors) in member countries - through business associations or chambers of commerce and in select instances, firms/companies;
iii. Selected State-Owned Enterprises (SOE); and
iv. Industry & business regulators in the relevant countries;
v. Project Partners
vi. Legal Firms
vii. Auditing Firms
viii. Any other relevant parties

Key Milestone: A Regional Consultations Report on feedback, suggestions and insights from various stakeholders on domestic corporate governance tools, usefulness, relevance and input into the African Guiding Principles for Corporate Governance

c. **PHASE 3 - Drafting of AU Guidance Note on Corporate Governance by Consultants** AU Guidance Note – (NOVEMBER 2019)

This involved a Report Drafting Session by Consultants, taking into consideration inputs collected during Phases 1, and 2 of the Project.

d. **PHASE 4 – APRM Validation Process**

- A presentation was made to the APRM Focal Points at their meeting on the sidelines of the AU Summit in February 2020 in Addis Ababa. The Focal Points noted the progress and the report presented at the meeting.
e. **PHASE 5 – Technical Validation Process (March 2020)**

   This phase will entail the following:

   i. Comments by member states and amendments to the report. Incorporation of comments based on the feedback from Validation Meeting, Project Partners, the APRM Secretariat and APRM National Offices

   ii. Submission of the Report to the STC on Finance

   iii. Submission of the final recommendations report to the APRM Secretariat and Project Partners.

   iv. Submission of the final recommendations to the Member States.

   v. Submission to the Focal Points and APR Panel for Adoption

   vi. Submission to the APR Forum & Heads of State Summit– January 2021

4. **MEMBER STATES’ CONSULTATION SCHEDULE**

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<tr>
<th>TEAMS</th>
<th>Countries</th>
<th>Dates</th>
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<tbody>
<tr>
<td>Prof. Amon &amp; Tumi Dlamini</td>
<td>South Africa</td>
<td>Monday 24&lt;sup&gt;th&lt;/sup&gt; + Tuesday 25&lt;sup&gt;th&lt;/sup&gt; June 2019</td>
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<td>Kenya</td>
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<td>Nigeria (TBC)</td>
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<td>Cote d’Ivoire</td>
<td>July 2019</td>
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<td>Prof. Karim</td>
<td>Morocco</td>
<td>Monday 24&lt;sup&gt;th&lt;/sup&gt; + Tuesday 25&lt;sup&gt;th&lt;/sup&gt; June 2019</td>
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<td></td>
<td>Egypt</td>
<td>December 2019</td>
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5. **THE TEAM:**
   a. Ms. Tumi Dlamini - Team Leader - APRM Secretariat
   b. Mr. Hugues Manzila – Coordinator - APRM Secretariat
   c. African Development Bank (tbc)
   d. Ms. Olajobi Makinwa – UN Global Compact
   e. Ms. Nechi Ezeako - African Corporate Governance Network

6. **THE CONSULTANTS:**
   a. Prof. Amon Chizema – Lead Consultant
   b. Prof. Karim ben Kahla – Consultant
   c. Prof. Babacar NDIAYE – Consultant

7. **THE ADVISORY GROUP:**
   The Advisory Group will be composed of members States’ representatives
   a. The Projects Partners
   b. The Arab Republic of Egypt:
   c. The Federal Republic of Nigeria
   d. The Republic of Kenya (informal sector)
   e. The Republic of Rwanda
   f. The Republic of South Africa
   g. The Republic of Cote d'Ivoire
   h. The Republic of Congo
   i. The Republic of Mozambique

8. **THE EXTERNAL REVIEW GROUP**
   a. OECD
   b. FTI Consulting
   c. Corporate Law Firm/Auditing Firm
PROJECT PARTNERS: PROFILES

1. THE AFRICAN PEER REVIEW MECHANISM (APRM)

The APRM is a self-monitoring mechanism and Africa’s most innovative initiative on good governance, using a holistic review process of its member states on four main thematic areas, namely, Democracy and Political Governance, Economic Governance and Management, Corporate Governance and Socio-Economic Development.

Since its inception, it has played an important role in monitoring compliance of member states of AU codes and standards through encouraging the adoption of policies, and practices that lead to political stability, high economic growth, sustainable development, and accelerated regional economic integration. Furthermore, this is enhanced through inclusive peers dialogue, exchange of experiences, reinforcement of best practices including identifying deficiencies, and assessing the needs for capacity building of the participating countries.

The January 2017 AU Heads of States Assembly decided to expand the mandate of the APRM to track key governance issues in Africa, and strengthen such process by effectively playing a monitoring role.

To date, thirty-seven Member States of the African Union have voluntarily acceded to the APRM.

2. THE AFRICAN DEVELOPMENT BANK (AfDB)

The African Development Bank Group (AfDB) is a multilateral development finance institution. The AfDB was founded in 1964 and comprises three entities: The African Development Bank, the African Development Fund and the Nigeria Trust Fund.

The AfDB’s mission is to fight poverty and improve living conditions on the continent through promoting the investment of public and private capital in projects and programs that are likely to contribute to the economic and social development of the region. The AfDB is a financial provider to African governments and private companies investing in the regional member countries.
The AfDB has been a strategic partner of APRM since the inception of APRM. The rationale and value addition of the strategic partners was bringing to bear the wealth of knowledge in the governance, economic and development challenges of member states amassed through decades of engagement in dialogue, programming and knowledge work. The Bank supports the thematic area of Corporate Governance.

3. UN GLOBAL COMPACT

The United Nations Global Compact is a United Nations initiative to encourage businesses worldwide to adopt sustainable and socially responsible policies, and to report on their implementation. The UN Global Compact is a principle-based framework for businesses, stating ten principles in the areas of human rights, labor, the environment and anti-corruption. Under the Global Compact, companies are brought together with UN agencies, labor groups and civil society.

In addition, The UN Global Compact is the world's largest corporate sustainability (corporate social responsibility) initiative with 13000 corporate participants and other stakeholders over 170 countries with two objectives: "Mainstream the ten principles in business activities around the world" and "Catalyze actions in support of broader UN goals, such as the Sustainable Development Goals (SDGs)."

4. THE AFRICAN CORPORATE GOVERNANCE NETWORK

The African Corporate Governance Network (ACGN) is a collaborative network of director membership organizations that promote effective corporate governance on the African continent and now has 19 members and 9 affiliate members from 19 African countries representing over 20 500 senior executives and directors across the continent.

The ACGN aims to provide policy makers and market participants with an important forum to exchange experiences and best practices aimed at addressing ongoing corporate governance challenges in Africa.