

Linah K Mohohlo: Governance beyond the financial crisis

Keynote address by Mrs Linah K Mohohlo, Governor of the Bank of Botswana, at the Botswana Institute of Accountants 6th Biennial International Conference, Gaborone, 3 June 2010.

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President of the Botswana Institute of Accountants, Mr Dixon-Warren,
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CEO of the Eastern, Central and Southern African Federation of Accountants, Mr Ncube,
Chief Executive Officer, BIA, Mr Majinda
Heads of Private and Parastatal Organisations,
Distinguished Men & Women of the Accounting Fraternity, Ladies and Gentlemen

I wish to thank the Botswana Institute of Accountants for the honour bestowed on me as I officiate at the opening of this 6th Biennial International Conference. I extend a warm welcome to all the guests and delegates and, for those from places afar, I implore you to feel at home in the City of Gaborone.

I am informed that this Conference coincides with the 20th Anniversary of the Institute, which will be celebrated tomorrow. Allow me, therefore, to take this opportunity to congratulate the Institute for almost coming of age at 20. You need not be reminded that with the maturity that goes with a two decade lifespan, comes increased responsibility for the greater good of all concerned and for the country.

As I share some thoughts with you on the Conference theme of “*Governance beyond the Financial Crisis*”, I will highlight the importance of good governance, using as a backdrop, the recent experience of the global financial crisis, which was a prelude to the economic recession from which the world is cautiously recovering. I will point to the lessons derived from the crises and highlight some remedial reforms, and the expected role of the accounting profession in this endeavour. I will then make reference to the governance framework that has continued to stand the country in good stead.

Before I delve into the conference theme, I wish to hazard some notable observations about the accountancy profession. As you are aware, accountants can be the butt of many a joke and often disparagingly referred to as “bean counters” or “number crunchers”. In my view, which I believe is shared by many, accountants are a lot more than that. Accounting professionals are increasingly taking on responsibilities beyond their traditional role. As technology continues to make accounting procedures more efficient, these responsibilities include line management, business strategy, workplace productivity, revenue and profit maximization, and related others.

This means accountants need a far wider set of skills. This evolution comes as demand for professionals with broad based business skills and industry knowledge is rising. On top of this, interpersonal and communication skills are becoming a key advantage as businesses rely more on interdepartmental cooperation that involves all business competencies to be strategically aligned to maximise output. In many instances, an accountant has to manage these processes with senior and middle management.

Therefore, although the appointment of an accounting professional is possibly the single most important decision towards ensuring business sustainability, increasingly, recruitment agencies tend to look beyond accounting qualifications.

Those who have invested in their careers, developed critical business, communication and strategic skills, will stand tall in what is becoming a highly competitive environment. Accountants can no longer be grey people who remain behind closed doors lacking in social

skills. They are going to have to be seen and heard as they earn their keep along with professionals of other disciplines.

Distinguished Ladies and Gentlemen,

The theme of the Conference – *Governance beyond the Financial Crisis* – is timely since most countries, Botswana included, are recovering from the effects of the global financial crisis, which precipitated the deepest recession in a generation. The theme speaks to the need for introspection; more importantly, it calls for exchange of views on the lapses in governance that originated from a few market players, particularly in the US.

It is now well known that the first sign of a progressive buildup of gross disregard of the basics of good governance in the US was the asset bubble that was fueled by the virtual absence of risk management and personal financial prudence. There was also lack of transparency, accountability and supervisory oversight standards. It was forgotten that what is legal is not necessarily ethical. The asset bubble gave rise to high commodity prices with consequences for global inflation in the first half of 2008. When the bubble burst, it resulted in the financial collapse of major multinational financial institutions; then came the credit crunch and a crush in share prices; economic recession was upon us; and there was a sharp drop in international trade, that was followed by a deterioration of government finances and job losses.

The consequent painful experience has given rise to an opportunity to seek remedies and avoid the possibility of a double dip recession.

I am encouraged that the accounting fraternity, which had a fair share of the blame for the recent global financial and economic misery, is also alive to the need for corrective action. I have no doubt that your deliberations at this conference will advance the debate on the role that your noble profession can play in enhancing good governance in the period ahead.

Work on the redesign of the global financial architecture and inclusive governance of world affairs is in progress at various fora, including at the World Economic Forum, G20 and at specialised professional bodies such as the Botswana Institute of Accountants.

A common theme running through the various efforts that are expected to eventually coalesce is that "*Governance beyond the Financial Crisis*" should, at a minimum, enhance transparency of institutional functioning at Board and management levels, as well as at operational and technical levels. Furthermore, accountability should be the order of the day and, in particular, the hierarchy of responsibilities and roles of institutional structures should be clearly defined. This arrangement should eventually reinforce checks and balances as part of risk mitigation; it should prevent a potential conflict of interests, while ensuring fulfillment of fiduciary responsibilities and avoiding dereliction of duty. In the end, however, transparency and accountability must be buttressed by a set of institutional values and ethical codes of conduct, such as honesty, selflessness and integrity of the highest order.

The importance of this Conference and its theme lie in the fact that they are part of the bigger picture of national and international efforts towards putting in place a new and more robust global financial architecture.

I have no doubt that you will share views on how you can become agents of transformation. At national and international levels, each one of you is called upon to meet high standards of technical competence. You are called upon to adhere to strict and uncompromising ethical standards, adopt a broad institutional and/or corporate perspective in your work, advise on policy and operational issues, and play custodial and trusteeship roles that demand moral courage.

You are challenged to be world class technical experts in financial analysis and to communicate your findings and their implications. You are also challenged to keep abreast with changes in your profession, such as the international accounting and financial reporting standards, and advise your principals in a timely manner.

The benchmarks for excellence in all these areas are set by international technical standards and evolving best practices. Of all the professions, yours is no stranger to the need for lifelong learning as you update your professional skills. You are more keenly aware than most of yesterday's expertise and knowledge is today's ignorance. Going forward, you are called upon to get more involved in cross-cutting issues of good governance and economic development.

Distinguished Ladies and Gentlemen;

Now that I have dwelt on the desirability and virtues of good governance, and the expanded role of the accounting profession in strengthening good governance, let's examine how the domestic governance framework benefited the country and the domestic banking sector generally at the time of the global recession.

Without fear of being contradicted, I can confirm that the domestic banking system escaped the first round of the direct adverse effects on asset quality at the time of the international financial crisis. The reason for this can be found in the robustness of the regulatory and supervisory framework. For instance, Board and senior management of banks are vetted before appointment, and care is taken to ensure that appropriate decision-making structures and related committees are in place, including adequate risk management and mitigation strategies. The regulatory framework also ensures that lending practices are devoid of conflict of interests; and consultations are undertaken with external auditors in a bid to ascertain operational and financial propriety. Without the rigorous enforcement of strict regulatory requirements, the banking sector would have been saddled with unbearable problems of, among others, nonperforming assets.

The less-than-severe impact of the global recession on the country's economy vindicated the importance of good economic and financial governance over the years. Without the careful and prudent budgetary and overall management of the country's resources, it would not have been possible to implement the fiscal stimulus that moderated the severity of job losses. Over time, Botswana has been able to avoid the so-called "resource-curse"; this is the inverse relationship between the vastness of resource endowments and a country's level of socio-economic prosperity. Inflation has, by and large, been relatively low and well managed; thanks to the benign inflationary environment at a global level.

Honoured Guests, I conclude by underscoring the importance of the need to redouble efforts in strengthening the existing governance infrastructure and redressing the inadequacies. History must not be allowed to repeat itself so far as the ravages of the financial and economic crises are concerned. Needless to add, the accounting profession has a lot to offer in this endeavour. Indeed government entities and the corporate world need accounting skills more and more each passing day. I have no doubt that you will respond with added enthusiasm and renewed sense of duty.

It is now my honour to declare the 6th Biennial International Conference of the Botswana Institute of Accountants officially open.

I wish you fruitful deliberations, and I thank you for your attention.