

# Corporate Governance: A Powerful Tool in the Battle against Poverty

“Corporate governance importantly affects firms’ access to financing, their cost of capital, valuation, and performance. Better corporate governance leads to higher returns on equity and greater efficiency in firms’ operations.”

That is how Stijn Claessens—assistant director, Financial Studies Division, Research Department of the International Monetary Fund—summarizes the research in a Forum *Focus* publication, *Corporate Governance and Development*. His review shows how research has documented that better corporate frameworks benefit firms through greater access to financing, lower costs of capital, better firm performance, and more favorable treatment of all stakeholders. Given these beneficial links, corporate governance is key in alleviating poverty.

Corporate governance matters now more than ever, in Claessens’ view:

- Privatization, trade liberalization, and other structural reforms—notably, price deregulation and the removal of restrictions on products and ownership—have made private, market-based investment processes much more important now for most economies than before.
- Due to technological progress, the opening up of financial markets, and deregulation, the allocation of capital within and across countries has become more complex, requiring commensurate improvements in corporate governance.
- The mobilization of capital is increasingly one step removed from the principal owner, given the increasing size of firms and the growing role of financial intermediaries, making good governance all the more important.

- As local and global financial landscapes are reshaped, international financial integration increases, and trade and investment flows expand, countries are facing increased competition and, hence need to enhance their corporate governance.

While many corporations will improve their corporate governance practices in the face of these developments, evidence shows that when a country’s overall corporate governance and property rights systems are weak, voluntary and market corporate governance mechanisms have limited effectiveness. His review suggests that the main reasons behind the lack of sufficient reforms are entrenched owners and managers at firms and political economy factors.

Available at: [www.gcgf.org](http://www.gcgf.org)

*“Governance must prioritize the needs and aspirations of the poor to overcome human deprivation”*

**N. K. Jain**  
Secretary and CEO  
The Institute of Company Secretaries of India



*“Corporate governance is about extending the benefits and opportunities that flow from free, fair, efficient – and non-corrupt – markets.”*

**Ira M. Millstein**

Senior Associate Dean for Corporate Governance,  
Yale School of Management  
Chairman Emeritus, Private Sector Advisory Group

## ABOUT THE FORUM

Established in 1999, the Global Corporate Governance Forum is an IFC multi-donor trust fund facility. Through its activities, the Forum aims to promote the private sector as an engine of growth, reduce the vulnerability of developing and transition economies to financial crises, and provide incentives to corporations to invest and perform efficiently in a socially responsible manner.

The Forum sponsors regional and local initiatives that address the corporate governance weaknesses of middle- and low-income countries in the context of broader national or regional economic reform.

## OUR FOCUS

- Raising awareness, building consensus
- Disseminating best practices
- Sponsoring research
- Funding technical assistance and capacity-building

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- World Bank
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## COVER PHOTO:

A training program involving participants from Southeast Asia

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**Better Companies,  
Better Societies**

# Alleviating Poverty: The Role of Corporate Governance

*Sustained economic growth reduces poverty. Companies embracing corporate governance drive expansion. Their success alleviates poverty by empowering poor people through new jobs and offering more affordable services and consumer products.*



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## Well-Governed Companies Drive Economic Growth

The highest priority of the Millennium Development Goals is to eradicate extreme poverty and hunger. The target is to cut in half by 2015 the proportion of people who earn less than one dollar a day and suffer from extreme poverty.

The private sector is central in meeting this goal. Well-governed companies create jobs, use resources more efficiently, and produce better goods and services at affordable prices. They also attract investors' capital to finance expansion and support technological innovation. As a result, peoples' lives are improved as businesses leverage their expertise, realize commercial success, and run their operations responsibly.

Studies of companies in developing countries show a strong link between economic growth and robust private investment. Companies that adhere to corporate governance best practices are the most likely to attract investors. Such businesses experience fast-paced growth with concomitant benefits for job creation and economic opportunities for the poor.

Corporate governance fosters the development of vibrant, sustainable, and responsible commerce. It helps the poor overcome their lack of income, capital, social services, and opportunities to participate in the economy.

### How Corporate Governance Helps Reduce Poverty

- Attracts investors
- Lowers costs of capital
- Improves performance, efficiency
- Reduces risks of financial crisis
- Promotes sustainable growth
- Engages stakeholders
- Defines responsibilities in serving communities

## The Forum's Leadership

The Global Corporate Governance Forum is the leading source of corporate governance expertise in low-income countries and emerging markets, providing access to world-class materials and networks of experts from the private and public sectors.

The Forum works to promote global, regional, and local initiatives that improve corporate governance policy standards and practices in developing countries. Through its work in four areas, the Forum is supporting efforts to eliminate poverty. Here are some examples:

### Raising awareness, forging consensus for reform

Through workshops, "train the trainer" sessions, sponsorship of research conferences, and engaging leaders in business, government, and academia, the Forum is demonstrating the business case for governance and advancing reforms that result in better-run companies. Jobs and new opportunities are the end results.

At one seminar the Forum organized, a board director said "I now have a clearer understanding of my role in ensuring that my company acts with responsibility and concern for our community impact." After completing training based on a Forum product, the head of a family-owned company said he felt more confident to weigh in on decisions. He also said he better understands the factors that determine success of family-owned companies, which are an important driver of growth and jobs. These are two of many individuals' assessments illustrating the Forum's impact in developing countries.

### Supporting institutions, disseminating best practices

Forum toolkits and other initiatives help countries and companies develop corporate governance codes and facilitate implementation. Global experiences and research inform Forum efforts that lead to responsibly managed companies whose success benefits society.

In post-conflict countries, the Forum is working with the World Bank and the IFC on programs to meet the specific governance needs of state-owned enterprises in

*"Good corporate governance can result in more efficient allocation of capital and therefore encourage higher levels of efficiency, quality, and competitiveness throughout the national economy. This will, in turn, help boost private sector development, create more jobs, improve quality of living, and ultimately lead to poverty alleviation"*

**Lopa Rahman**  
Project Director  
Bangladesh Enterprise Institute



improving the efficiency and quality of their services to communities. In Mozambique and Panama, among other countries, the Forum helped launch Institutes of Directors. By improving directors' capabilities, they can drive reforms within their own companies that result in sustainable growth and benefits for their communities.

The Forum initiated a multi-year effort with the Southern African Development Finance Resource Center (DFRC) involving 23 Development Finance Institutions (DFI) in 10 African countries. A new Forum product, the manual for DFI directors, is helping to improve the efficiencies of DFIs to provide viable services to businesses that have no or limited access to financing.

### Providing technical assistance

The Private Sector Advisory Group (PSAG) is one of several ways in which the Forum provides access to world-class technical resources and expertise. PSAG brings together more than 75 international leaders in the private sector to volunteer time in helping developing countries promote adoption of corporate governance. Better-run companies weather economic cycles more effectively and work closely with the communities and stakeholders they affect.

Based on an assessment of Zambia's needs by the World Bank corporate governance policy practice team, the Forum developed an action plan targeting nine key areas for reform. In more than 50 developing countries and emerging markets, the Forum has provided technical assistance, which includes both formulation and implementation of corporate governance codes and training for directors and financial journalists. The *Corporate Governance Board Leadership Training Resources Kit* is being rolled out worldwide. This product

provides trainers with materials to help directors drive corporate governance improvements within their companies, thereby driving economic development and opportunity.

### Sponsoring research relevant to developing countries' needs

Through its publications—*Private Sector Opinion* and *Focus*—the Forum is a thought leader in disseminating research and experiences that show how corporate governance is essential in helping companies attract capital and improve their operations to ensure sustainability. As the companies succeed, they generate jobs and contribute to economic development.

The work the Forum published by Stijn Claessens—assistant director, Financial Studies Division, Research Department of the International Monetary Fund—demonstrates these efforts. In the *Focus* publication *Corporate Governance and Development*, Claessens summarizes the research demonstrating how corporate governance is essential in alleviating poverty. (An excerpt appears on the other side.)

*"There is no doubt that a strong correlation exists between good corporate governance practices and levels of economic development in Africa. The Forum's work helps leaders understand this link and respond effectively."*

**Patrick Chisanga**  
Member, Private Sector Advisory Group