Agenda for Presentation

- About the Forum
- Relevance of Corporate Governance
- Implementing the CG Codes and Standards
- Forum’s Role in Supporting CG Reform Efforts
- Additional Information

“Working in partnership is key to meet ... global challenges. Both resource depleting businesses, weak civil societies and failed governments are part of the problem, but responsible companies, engaged governments, vigilant NGOs and knowledge communities are part of the solution.”

The Oslo Agenda for Change (2007)
“.......... the Forum has shown adaptability in the face of change such that its effectiveness in meeting on-the-ground needs remains both strong and service-oriented. It has become increasingly adept in its facilitator/catalyst role and can already claim to be the pre-eminent knowledge management body on practical corporate governance issues globally.”

*Forum’s Phase II Independent Evaluation*
Global Corporate Governance Forum

What & Why: Supporting global, regional, and local initiatives that improve corporate governance policies, standards and practices to promote the private sector as an engine of sustainable growth.

How: Developing toolkits and publications for best practice guidance, providing policy advice and technical assistance, delivering capacity building and training programs.

Clients and partners: CG training and advocacy organizations, policy makers, regulatory oversight authorities, stock exchanges, international development organizations and standard setters.
Our Mandate

- **Multi-donor trust funded facility**
  - Founded in 1999 by World Bank Group and OECD
  - Funded by combination of core and bilateral donors
  - Currently located in CSB [part of SBA BL]

- **Forum’s purpose:**
  - **Promote** global, regional and local CG reform initiatives
  - **Improve** institutional framework for good corporate governance
  - **Facilitate** improved CG practices in developing countries

- **Funds used for technical assistance, not grants**

- **Governed by Steering Committee**
  - Donors include IFC, currently chaired by Luxembourg
  - Founders, e.g. World Bank and OECD

- **Advised by private sector business leaders (PSAG)**
What the Forum Offers

Private Sector Advisory Group

Knowledge Products

- Guidance for good practice implementation

Policy Advice & Technical Assistance

- Tailoring good practice to local conditions
- Codes and Scorecards
- Director Training Organizations
- High level policy engagement
- Business investor dialogue

Training Programs

- Knowledge transfer and local capacity building
- Board Leadership Training
- Resolving CG Disputes
- Media Training

Policy Advice & Technical Assistance

- Codes and Scorecards
- Director Training Organizations
- High level policy engagement
- Business investor dialogue

Training Programs

- Knowledge transfer and local capacity building
- Board Leadership Training
- Resolving CG Disputes
- Media Training
East Asia and Pacific region includes Cambodia, China, and Philippines; South & Southeast Asia region includes Maldives; MENA region includes Egypt, Lebanon, Algeria, Yemen, Tunisia, UAE, KSA, Jordan, Oman, Bahrain and Pakistan; Africa region includes Senegal, Nigeria, Malawi and Zambia; Southern Europe & Central Asia region includes Armenia, Azerbaijan, Georgia, Bulgaria, FY Macedonia, Montenegro, Tajikistan, Serbia, Albania, Bosnia & Herzegovina and Ukraine; LAC region includes Jamaica, Colombia and Brazil.
Regional CG Codes Coverage
Relevance of Corporate Governance

“An effective system of corporate governance must strive to channel the self-interest of managers, directors and the advisors upon whom they rely into alignment with the corporate, shareholder and public interest.”

Ira Millstein
Chairman Emeritus, Private Sector Advisory Group
Global Corporate Governance Forum
Key Determinants for FDI

Policy Framework

Business Facilitation

Resource-seeking

Market-seeking

Efficiency-seeking
Defining Corporate Governance.....

Corporate Governance is a mechanism through which boards and directors are able to direct, monitor and supervise the conduct and operation of the corporation and its management in a manner that ensures appropriate levels of authority, accountability, stewardship, leadership, direction and control.

“The importance of corporate governance lies in its contribution both to business prosperity and to accountability.”

Paragraph 1.1, Committee on Corporate Governance: Final Report Hampel Committee, 1998

“Corporate governance is concerned with holding the balance between economic and social goals and between individual and communal goals...... The aim is to align as nearly as possible the interests of individuals, corporations and society.”

Sir Adrian Cadbury
Corporate Governance Overview, 1999
[World Bank Report]
Market Need

- **Attracting investors**: Well-governed companies attract premium valuations (research has shown that emerging markets investors are willing to pay a premium for well-governed companies)

- **Reducing the cost of capital**: Well-governed companies get lower borrowing costs (e.g. credit ratings improvements for BCR)

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**Performance of Companies with Strong vs. Weak CG Practices**

![Graph showing performance comparison](Image)

- **Improving performance**: Well-governed companies outperform their competitors (e.g. Brazilian firms on IGC listing of BOVESPA with better CG performed substantially higher over time than those with lesser practices)

- **Fewer failures**: The recent crisis in the banking sector confirms: Better governed companies, especially those with robust risk management mechanisms, experience fewer losses

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It is a financial and reputational risk for investors to invest in companies that are not well-governed!
Why Corporate Governance Matters!

ECONOMIC GROWTH

Corporate Governance

Development of Capital Markets

Job Creation

Private Sector Growth

Improved Access to Credit

Financial Sector Development

Financial Stability
Implementing CG Codes and Standards

“The Forum’s expertise and experiences provided Bulgaria with practical, relevant, insightful counsel.”

Prof. Bistra Boeva
Co-Chair, Bulgaria CG Project
Once a CG Code is in Place.......?

Be careful what you wish for........!!!!
How Company Structures Inform CG

- **Listed Companies**
  - principal target of most CG codes and regulations
  - focus of OECD CG Principles
  - falls within more regulated environment

- **Banks and Financial Institutions**
  - critical to financial and economic stability
  - Falls within prudential supervision and not necessarily listed

- **State-owned Enterprises**
  - problematic area in many jurisdictions
  - often compromised by political interference, incompetence

- **SMEs and Family Businesses**
  - important feature in emerging markets, developing countries
  - least regulated for various reasons
  - weak incentives for adherence to good CG
CG Practices Informed by Regions

- Politics and Culture
- Language and Business Systems
- Stage of Market Development
- Effectiveness of Market Enforcement, Regulation
- Question of Market Incentives
- Capability, capacity of market intermediaries
Implementation Framework

- **Mandatory vs. Voluntary**
  - Carefully consider implications of both options!!

- **What do we mean or intend by “Voluntary”**
  - Comply or explain approach still presumes regulatory oversight
  - Emphasised through transparent reporting, full disclosure
  - Regulators role discrete
  - Capacity of market intermediaries, if these exist
  - Consider to which companies or market sector this applies

- **“Mandatory” rules have equally and compelling issues**
  - Removes flexibility and essentially “enforces” practice
  - Unless sector specific, complicated to enforce consistently
  - Interplay with corporate laws can be confusing
  - Places heavy responsibility on regulatory capacity
  - Presumes skills in CG and requires supervisory judgment
Getting Everyone on Board.........!!
Some Key Regulatory Considerations

- If “Voluntary”……
  - Suggest locate custody of CG Code with host institution

- If “Mandatory”……
  - Ensure inspectorate trained, familiarised with CG issues

- Ensure co-ordination among regulatory agencies
  - Banks tend to mandate, impose restrictive conditions
  - State-owned enterprises raise political sensitivities
  - Taxation requirements may compromise transparency ethic

- Identify gaps or weaknesses requiring legal reforms
  - e.g. related party transactions, shareholder meetings/voting

- Consider instruments to encourage adherence
  - e.g. scorecard, index, annual report competition

- Set a target for review and possible update
Role of Institutions in CG Implementation

- **Directors’ Association or similar institution**
  - Run awareness workshops explaining CG Code
  - Often tasked with issuing guidance or practice notes
  - Usually leads training of directors and boards, chairmen, CEOs

- **Accounting Association**
  - Review implications for their own profession
  - Specialised oversight in key areas e.g. risk, internal audit
  - Guidance for audits of CG statements (if applicable)
  - Question of consulting to companies (not audit clients!)

- **Corporate Secretaries**
  - Opportunity to play a key role in the boardroom
  - Guidance on board processes, instruments

- **Business Associations**
  - Key constituent, access to companies and business people
Role of an Informed Media

Not only report on questionable practices, but can play a role in highlighting good practices!!!
Other Issues Warranting Consideration

- Role (if any) of pension funds
- Position of institutional investors
  - Domestic investors including sovereign wealth funds
  - International investors – portfolio and long-term FDI
  - Private equity
- Subsidiaries of foreign multinationals
- Development in international standards and implications
  - e.g. OECD, World Bank, European Union, IOSCO, Basel, etc.
- Issues associated with corporate social responsibility
  - e.g. this ranges from UN Global Compact to NGO special interests

Probably the most important consideration for any CG Code implementation is not just getting the market on board BUT, more significantly, recognise it is a process and takes time. Therefore do not seek to regulate beyond what your capacity reasonably permits – that will only serve to discredit any benefits of the CG Code if the market reads that it can arbitrage the provisions without concern for sanction!
Forum’s Role in Supporting CG Reform Efforts

“No transparency, no trust; no trust, no credit; no credit, no investment; no investment, no growth! There is a simple logic: corporate governance and financial reporting are an essential building block for financial intermediation, foreign investment, and sustainable economic development.”

Martin Gruell
Raiffeisen International
Our Counterparts

Capacity building and advocacy organizations, such as Institutes of Directors and Corporate Governance Associations

Government institutions, policy makers, regulatory oversight authorities, stock exchanges, etc

Academia, Education and Business Media - Emerging Markets Research Network, Business Schools, Journalists
Sharing Knowledge, Building Expertise

- Establishing regionally strategic Corporate Governance Centers:
  - To adapt and utilize Forum's products locally and regionally
  - To promote South-South collaboration and exchange
Partnering for Effective Delivery

**Strategic Partners**
- World Bank
- OECD
- GRI
- UN GC
- Globethics.net

**Technical Partners**
- CIPE
- DLA PIPER
- KPMG
- The AFP Foundation

**Implementation Partners**
- Bangladesh
- Indonesia
- Egypt
- Brazil

“The Forum continues to distinguish itself through its record of leveraging with a very broad array of international and local partners, its network of distinguished private sector advisors, and inter-unit collaboration within the WBG. There is more leveraging through partnerships than ever before, with relationships established with dozens of international and local partners.”

*Forum Phase II Independent Evaluation*
“...the substance of good corporate governance is more important than its form; adoption of a set of rules or principles or of any particular practice or policy is not a substitute for, and does not itself assure, good corporate governance.”

The Business Roundtable, USA
Additional Information

“I have no problem with ethics. I merely ask myself whether I would mind if my old mother read about this in the Press.”

Company chairman of a major British public company
What Informs the CG System?

PARTIES

Stakeholders
- Employee
- Unions
- Customers
- Suppliers
- NGOs

Reputational Agents
- Accountants
- Lawyers
- Credit-rating agencies
- Investment bankers
- Financial media
- Investment advisors
- Governance analysts

INFLUENCERS

Laws and regulations
- Companies Act
- Securities law
- Listing requirements
- Insolvency law,
- Markets’ listing rules

Standards
- Accounting
- Auditing
- Governance
Comprehensive Board Governance

Board of Directors
- Achievement of strategic objectives and value creation
- Fulfil responsibilities and duties in law and prescribed functions

Board Operations
- Strategy
- Corporate Policies & Procedures
- Board Governance Instruments
- Monitoring and Evaluation

Board Committees
- Audit Committee
- Remuneration Committee
- Other Committees

CEO & Management
- Executive Committee
- Internal Controls & Assurance

Governance System and Controls

Information and Communication
- Chairman
- Board Meetings
- Corporate Secretary
- Reporting & Disclosure

Combined Assurance Model
- Internal Audit
- External Audit
- Other Assurance Providers
- Management

Source: KPMG
Example: BP

Audit Committee
Monitoring all reporting, accounting, control and financial aspects of executive management activities

Chairman’s Committee
Considers board issues of governance, including the overall effectiveness of the chairman and the group chief executive

Remuneration Committee
Determines the remuneration of the group chief executive and executive directors

Ethics and Environment Assurance Committee
Monitors the non-financial aspects of executive management activities, such as ethical conduct, environmental matters and health and safety

Nominations Committee
Considers board composition and succession planning issues, including the appointment and reappointment of directors

Source: BP Sustainability Report
“We recognize that our activities impact people, communities and the environment and that they may have consequences for future generations. Through our commitment to the Triple Bottom Line (financial, social and environmental responsibility) we strive to maximize positive impacts and minimize the negative ones.”