SUMMER 2008

A PROGRESS REPORT

Participants at International Faculty Workshop (from left to right): Sandra Glasgow, CEO, The Private Sector Organisation of Jamaica; Ashraf Gamal El-Din, executive director, Egyptian Institute of Directors; and, Andres Bernal, consultant, Governance Consultants in Colombia.

Global Corporate Governance Forum

Better Companies, Better Societies

Forum Steering Committee member Miguel Marques outlines the role that corporate governance plays in fueling economic growth. ■ Representatives from director training institutes in four continents participated in a workshop to learn how to use the newly released *Corporate Governance Board Leadership Training Resources Kit*. ■ A Brussels seminar helped candidate and potential candidate countries better understand the EU approach to corporate governance. ■ In Mumbai, business leaders discussed criteria for directors' independence, the opacity of executive compensation, and their concerns over related-party transactions. A grant from the Comprehensive Japanese Trust Fund of the IFC is supporting the Forum's work in India. ■ In the Democratic Republic of Congo, the Forum is working with partners to address the needs of directors of state-owned enterprises. ■ An action plan is proceeding in Zambia with Forum assistance. ■ The Forum and the Center for International Private Enterprise (CIPE) are helping the private sector combat corruption through effective business ethics and corporate governance mechanisms. ■ Morocco launched its first corporate governance code. ■ Panama's Institute of Corporate Governance moves forward by working with the national library to provide books and other materials throughout the country. ■ The Forum is supporting Mexican companies' efforts to comply with corporate governance requirements in the country's recently enacted securities law. ■ A seminar in Bahrain explored corporate governance issues in Islamic finance. ■ A *Focus* publication on Brazil's Novo Mercado examines the market factors that drove listed companies to adopt corporate governance standards. Another looks at minority shareowner protection reforms in Chile and Panama. ■ In the *Private Sector Opinion*, the experiences of Dow Jones and Reuters in changing owners are examined. ■ Private Sector Advisory Group Deputy Chairman Christian Strenger explains the value of corporate governance scorecards.

OUR MISSION

Established in 1999, the Global Corporate Governance Forum is an IFC multi-donor trust fund facility located in the Corporate Governance and Capital Market Advisory Department. 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 programs.

OUR FOCUS

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

OUR DONORS

- Canada
- France
- Luxembourg
- The Netherlands
- Norway
- Sweden
- Switzerland
- International Finance Corporation

OUR FOUNDERS

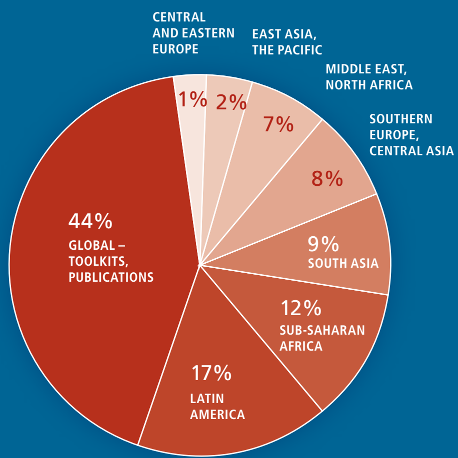
- World Bank
- Organization for Economic Cooperation and Development

IFC International Finance Corporation World Bank Group

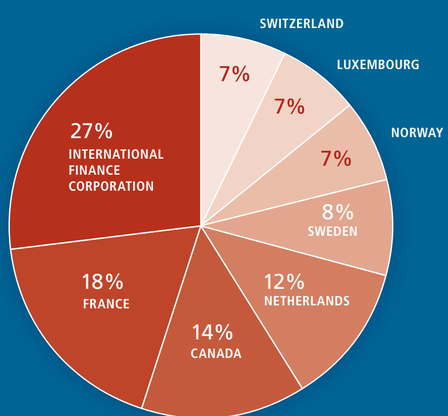
Global Corporate Governance Forum

FINANCIAL SUMMARY

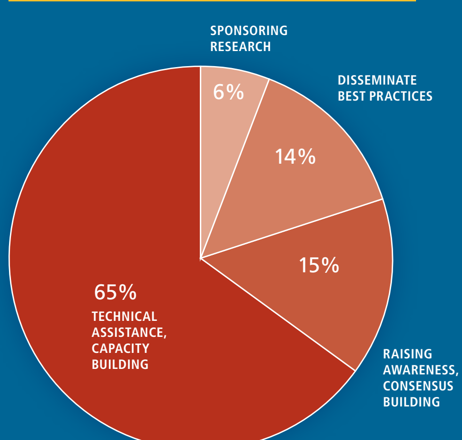
Funds Allocated by Region



Sources of Funds

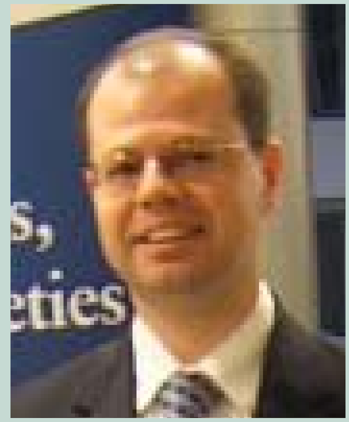


Funds Allocated by Activity



'Corporate Governance Is Pro-Growth'

Miguel Marques, a Luxembourg national, is a senior advisor with the Luxembourg Ministry of Finance. He also counsels the Director for Belgium, Luxembourg, and Slovenia at the European Bank for Reconstruction and Development (EBRD) in London, where he has represented Luxembourg's interests since 2005.



Miguel joined Luxembourg's Ministry of Finance in 1996 and worked in the Treasury Department and the Multilateral Development Department before moving to Washington, D.C. While in Washington between 2001 and 2005, he represented Luxembourg at the boards of the IMF and the World Bank.

He holds an MBA from Sacred Heart University in Connecticut and a law degree from the University of Louvain in Belgium.

What value does Luxembourg see in supporting the Forum?

Through its Ministry of Finance, Luxembourg was an early founder of the Forum at its initiation in 1999 and remains a committed supporter. The Forum's activities promote the private sector as an engine of growth, reduce the vulnerability of developing and transition economies to financial crises, and provide incentives that encourage corporations to invest and perform efficiently in a socially responsible manner.

By supporting 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 programs, the Forum helps make a difference in fostering better companies and better societies.

Like other donors, Luxembourg has recognized that business-enabling, access to finance, and investment climate reforms are an inherently pro-growth agenda. Luxembourg is therefore focusing its assistance on those areas that best advance country progress, individually or regionally. Our assistance delivered through the World Bank Group – and more specifically through the IFC – focuses on support for the Foreign Investment Advisory Service, the Global Corporate Governance Forum, and the Sustainable Business Innovator Facility. Over the past few years, we have continuously increased our funding in support of these and other programs aimed at improving business climate. We intend to notch up our funding even more in the future.

What role can corporate governance play in fostering a pro-growth environment?

The importance of corporate governance and investment climate reforms for boosting growth and reducing poverty is increasingly well understood. Private sector businesses are the engine of job creation. In many countries, the private sector accounts for 80 to 90 percent of gross domestic product. In most of these countries, 90 percent of all new jobs come from the private sector. These new jobs are exactly what poor people need to lift themselves out of poverty.

If corporate governance is a "win" for the economy, then why do countries and businesses have trouble implementing the reforms?

Much less is understood about how to manage these reforms. Reformers face many technical, political, and institutional challenges. Key among these challenges is how to package reforms, how to get support for them, and how to reap their benefits. The Forum's work can be instrumental in addressing these issues.

International Faculty Orientates Trainers on *Board Leadership Resources Kit*

Director-training program specialists from four continents gathered for a week-long workshop to learn how to use the newly released *Corporate Governance Board Leadership Training Resources Kit*.

This tool provides an exhaustive curriculum to educate directors about their board roles and the business case for corporate governance best practices. The training modules include trainer notes and PowerPoint presentations. Guides are also provided on training skills and program implementation. A case study traces the evolution of a fictitious founder-owned company, Organica Future™, through various corporate governance issues.

The faculty that developed the *Resources Kit* demonstrated some of the training modules, emphasizing highly interactive teaching techniques designed to engage adult learners and encourage sharing of relevant personal experiences.

Participants simulated a board meeting of Organica Futura™ to consider whether to adopt a board evaluation program. In another session, participants brainstormed about the challenges of financial stewardship for directors. Throughout, the faculty emphasized the links between the training content and leadership skills development.

At the workshop's conclusion, participants outlined the key steps they plan to take to integrate the *Resources Kit* into their director training programs.

"The two key things that appeal to me about the *Resources Kit* are the focus on the delivery of information – in terms of the resources to help trainers, the presentation of the materials and the different training techniques that can be used – and the conscious effort to consolidate in one package an overview to corporate governance for directors and leaders," said William Foster, executive director of Mudara, an Institute of Directors in Dubai.

By training the trainers, who in turn train directors, the Forum is helping to advance corporate governance best practices worldwide through accumulated knowledge of world class director development techniques and training methods. Instilling in directors a commitment to acting on shareowners' behalf is key in defining a company's vision, setting priorities, determining strategy, and operating the business according to the highest standards of professionalism and ethics.

"Our challenge is to help board directors understand corporate governance and its value," said Ghita Alderman, the project's team leader. "With that knowledge, they can act as 'agents of change.' They can look at how the companies of the boards on which they sit are governed and assess their adherence to best practices. Where there are shortfalls, they can work to make the necessary improvements."

The *Resources Kit* was demand driven. IoDs, universities, and other director training providers urged the Forum to create a program they could use to strengthen and broaden their efforts.

TRAINING DIRECTORS – THE CHALLENGES

- Equipping directors with ethical insights to inform their decisions
- Connecting complex rules with boardroom reality
- Building trust in and gravitas for training; getting "buy in" from directors
- Sharpening leadership skills of a diverse group of directors, differing in abilities and experiences

NEXT

Bangladesh and India are the first sites for a global rollout of the *Resources Kit.*

'AN INSPIRATION'

"The networking was important, introducing me to establish friendships with those who are experiencing similar challenges that I confront in running director training programs."

ALISON DILLON KIBIRIGE,
a consultant based in Uganda.

"Spending a full working week with such a knowledgeable and culturally diverse group of extraordinary personalities was a great honor and opportunity for me."

LEONARDO F. PEKLAR,
Chairman, Socius Consulting Inc. in Slovenia.

"I certainly learned a lot, not only from the faculty members, but also from numerous discussions with the other participants."

OLLI V. VIRTANEN,
Secretary General of the Finnish Association of Professional Board Members.

"It was an inspiration seeing all great and intellectual minds from different parts of the globe converge to deliberate on a variety of corporate governance issues from different conceptual perspectives and still build an enviable consensus! How small this world has become!"

DR. JOSHUA ABONG'O OKUMBE,
CEO, Centre for Corporate Governance in Kenya.

JOIN THE CONVERSATION

To continue the process of sharing experiences, the Forum established a blog. Through it, workshop participants can post their ideas or seek guidance as they develop their training programs to incorporate the *Resources Kit's* contents.

India Business Dialogue

Nearly 50 senior representatives of the Indian business and investor communities participated in the India Business Investor Dialogue in Mumbai in February. The Forum sponsored the session, working in partnership with the Securities and Exchange Board of India, its training arm, the National Institute of Securities Markets (NISM), and the IFC. The World Bank's Delhi office provided considerable logistical and communications assistance.

During the session, participants discussed directors' independence, the opacity of executive compensation, and their concerns that related-party transactions be more carefully vetted and approved. S. D. Shibulal, co-founder and board member of Infosys Technologies Limited, delivered the keynote address. (See photo above.)

Prof. Vic Khanna of the University of Michigan presented a survey on the current status of corporate governance among quoted Indian enterprises. The two main elements of research that were discussed at the dialogue were: the structure and efficacy of boards and objectives and modalities of disclosure.

"The exercise was invaluable in obtaining a perspective of India's market situation, ascertaining what is working and what isn't, assisting the regulator in identifying gaps and evaluating training needs for board directors," said Christian Strenger, deputy chairman of the Forum's Private Sector Advisory Group.

The event received wide media coverage and was well received by participants.

"I thought it was an excellent beginning to building a base for dialogue on enhancing governance standards in a market which will increasingly be of interest to foreign funds," said Mirza Baig, associate director, Governance and Sustainable Investment with UK-based F&C Limited. "I had many discussions with India-based corporate and domestic investors, who were very positive about the impetus for the conference and hopeful that India will continue to progress on the corporate governance front."

The Forum is working with the Securities Exchange Board and NISM to pursue a variety of activities that will advance corporate governance in India. These efforts include broadening contacts with the country's business leaders and expanding programs that train directors. With the Reuters Foundation, the Forum will be training journalists to report more effectively on issues related to corporate governance. This initiative is guided by the view that journalists can be an additional means of surveillance of companies' behavior to that already in place by the regulators.

JAPAN SUPPORTS FORUM'S WORK

A grant from the Comprehensive Japanese Trust Fund of the IFC is supporting the Forum's work in India.

The EU Approach to Cor
Bridging the Gap in Can

More than 90 participants joined a seminar on European Union Corporate Governance in Brussels in February. The Forum designed the event for EU candidate and potential candidate countries, working in collaboration with the Slovenian Presidency of the EU, the European Parliament, the European Commission, the IFC, CIPE, and US Agency for International Development-funded Partners for Financial Stability.

The seminar's key objectives were to raise awareness about existing EU corporate governance requirements and guidelines. The discussions enabled candidate and potential candidate countries to participate in current EU debates on cross-border voting, executive pay, and corporate governance control mechanisms.

The speakers emphasized that corporate governance compliance benefits go beyond EU membership to include improved trade with EU partners, greater interest from EU investors, and enhanced competitiveness with EU companies.

"The seminar gave us a foundation of knowledge about EU corporate governance issues and the challenges facing EU candidates," one participant said. "The quality of the speakers and the ability to network with peer professionals in the region were benefits of this seminar," said another.

One session focused on approaches for bridging the gap with EU candidate and potential candidate countries. Claire Bury – head of unit, Company Law, Corporate Governance and Financial Crime, DG Internal Market and Services, European Commission – outlined the challenges in incorporating the "Acquis Communautaire."

Claire Bury – head of unit, Company Law, Corporate Governance and Financial Crime, DG Internal Market and Services, European Commission – confers with Eddy Wymeersch, chairman of both the Committee of European Securities Regulators and the Belgian Banking, Finance and Insurance Commission.

porate Governance:
didate, Potential Candidate Countries

She emphasized the need for countries to develop a sound corporate governance culture. "The specific challenges for candidate and potential candidate countries include strengthening their company and securities law framework and familiarizing market participants with the new legal provisions," Bury said.

For a transparency-based corporate governance system to work efficiently, she said, countries must: screen potential barriers to the functioning of the new "comply or explain" system; implement certain additional legal measures, such as strengthening board responsibilities and director liability; build awareness within boards and among shareholders about their tasks; and, establish a means for monitoring adherence to corporate governance standards.

"Most countries transitioning toward EU accession need to upgrade their company laws to standards that are generally acceptable at an international level," said Gian Piero Cigna, principal counsel to the EBRD. "Even more importantly, they must make those laws fully effective, particularly through strengthening their court systems, tackling corruption and adopting appropriate measures to strengthen the rule of law."

A summary of EU initiatives on corporate governance is provided in the Forum publication, *The EU Approach to Corporate Governance*. This overview is particularly useful for countries that are either developing corporate governance codes or revising such codes with the purpose of establishing internationally recognized standards and practices of good corporate governance. The Forum also published *Did You Know? Ten Facts about Corporate Governance in the EU.* (Read these publications and seminar presentations on the Forum's Website. www.gcgf.com)

Peter Montagnon, a PSAG member and director of investor affairs with the Association of British Insurers, reminded participants that there are responsibilities for both companies and shareholders. "Good governance means organizing companies so that they make robust decisions and manage risks in ways that create value for their owners over the long term. Shareholders have an important role to play in this because they are part of the accountability chain and as owners, they are ultimately responsible for what happens."

THE OBSTACLES

"Increasing public awareness about the advantages of implementing good corporate governance and EU best practices. Here, I mean that not only listed joint stock companies at the Macedonian Stock Exchange, but also small and medium enterprises and especially, the public sector (state-owned enterprises) should be acquainted with the basic corporate governance principles and EU best practices."

PROF. GORAN KOEVSKI, PH.D.
Professor at the Faculty of Law, Macedonia

"Education, education, education!"

PETRA ALEXANDRU
Executive Officer, Bucharest Stock Exchange

"The main challenges are the general low level of 'corporate culture' in most of our companies. Most of those companies' management did not realize the change from the socialist state-planned economy to a market economy."

JASNA VICIC
Advisor, Serbia Securities Commission

"Since the code is not legally binding and there are no specific enforcement measures, our agency's main challenge, through its activities, is creating a positive corporate climate that will influence the issuers to execute the code provisions voluntarily."

MARTINA GALOVIC
Adviser, Croatian Financial Services
Supervisory Agency (HANFA)

NEXT

The Forum is working with candidate and potential candidate countries from the Balkans region to help them bridge the gap between EU standards and their national laws and regulations. Together with IFC – PEPSE, the Forum is actively disseminating best practices and findings from the seminar and helping develop corporate governance codes. In cooperation with the International Organization of Securities Commissions (IOSCO) and the Toronto Center for Financial Leadership, the Forum is organizing a workshop for securities regulators from the Southeast Europe region to improve enforcement and help prevent market abuses. The Bulgarian Financial Supervision Commission in Sofia will host this workshop on June 23 to 27.

Forum's Work in Africa

POST-CONFLICT INTERVENTION: DEMOCRATIC REPUBLIC OF CONGO

In a post-conflict country like the Democratic Republic of Congo (DRC), a reformed investment climate is critical to generating economic growth and employment opportunities. The DRC government seeks to improve its investment climate.

The Forum is working jointly with the World Bank and the IFC country offices to execute a program that addresses the specific needs of directors of state-owned enterprises (SOEs) in the DRC, including corporate governance development and training.

At a two-day event in February that the Forum helped to arrange, 250 newly appointed directors from 55 SOEs engaged in highly interactive training to learn how international best practices can be applied to their enterprises.

Mabunda Lioko, the Ministre du Portefeuille (pictured above, center of panel), delivered inspiring opening remarks, outlining her commitment to corporate governance and its critical role in the country's development. Many who attended praised her presence, words, and leadership as being inspirational. "She amazed me!," one participant wrote.

"This seminar arrives at good moment in our country's history," said another participant. "The quality of the discussions was very high; we had frank, constructive dialogues," said a third. "I left the event with a clearer understanding of the fundamental components of good governance and the value of transparency and integrity," said yet another.

At the event's conclusion, Minister Lioko congratulated the Forum and its partners for "two extraordinary days."

To demonstrate the necessary conditions and structures for good corporate governance in SOEs, the Forum is exploring support for reforms of two SOEs in the DRC.

While in Kinshasa for this event, the Forum and its DRC partners organized a seminar for 20 directors of banks. As banks seek access to global capital markets, their directors want to understand market expectations of corporate governance. The seminar covered such topics as the board's oversight function, its independence, internal controls, and evaluation approaches.

ZAMBIA COUNTRY ACTION PLAN

In response to a Report on the Observance of Standards and Codes (ROSC) Corporate Governance Country Assessment Zambia and a Report on the Corporate Governance of State-Owned Enterprises in Zambia (carried out by the World Bank corporate governance policy practice team), the Forum developed a Country Action Plan comprising nine key areas for reform. For each activity, there is a clear objective, the actions to be taken, expected outcomes, key stakeholders to engage, resources, budget, timing, and performance indicators.

Other donors will be informed and consulted on the activities. Additional funding beyond the Forum's budgeted resources will be essential to fully implement the action plan.

While efforts are underway to raise the necessary funding to support the Forum's work, the policy practice team with the Forum's assistance is proceeding with the process for developing an ownership strategy for Zambian SOEs. The technical assistance that the Forum will provide includes: establishing an ownership unit and formulation of an ownership policy; enhance directors training; formulation of a new corporate governance code; training for financial journalists; guidelines for shareholder engagement; and, corporate governance mediation.

Morocco Code Launched

Morocco launched its Code of Corporate Governance in March, after a year-long effort building on a public-private partnership that involved government officials, business leaders, regulators, and academia. The Forum served as technical adviser throughout the process.

"This is an important first step in improving corporate governance practices. We look forward to continued collaboration with the Forum as we move towards implementation, awareness-building, and improving director professionalism," said Amina Benjelloun, Chargé de Mission, Office of the Prime Minister.

The code sends "a strong signal" in promoting good governance practices. Its foreword acknowledges that "good corporate governance buttresses national and foreign investment, promotes market stability and secures economic growth, an essential lever for national development."

An indicator of this attitude change is the decision by the Moroccan securities commission to publicly identify and sanction market intermediaries and issuers for substandard practices.

The code will be supplemented by additional provisions and regulations that take into account the specific nature of small- and medium-sized enterprises, family-owned businesses, financial institutions, and public enterprises. A national commission will continue assessing and improving the code's provisions to optimize its impact. Public awareness and training efforts are also being planned.

TECHNICAL ASSISTANCE ON CODE DEVELOPMENT

The Forum is providing technical assistance to many countries, including:

Yemen: A task force is underway following a CIPE-led awareness program that included an event attended by more than 180 participants.

Algeria: The Forum is actively supporting and advising the Algerian Corporate Governance Task Force in developing a code targeted at Small and Medium Size Enterprises. The new code is expected to be launched this autumn.

Bahrain: The Bahrain Corporate Governance team has asked the Forum to review its draft code. PSAG member Ken Rushton attended a meeting in Bahrain organized by CIPE to provide comments and recommendations from international experts.

Armenia: In cooperation with the EBRD, the Forum will be helping Armenia start a corporate governance task force and provide technical assistance on the process and international best practices.

"We look forward to continued collaboration with the Forum."

AMINA BENJELLOUN
Chargé de Mission, Office of the Prime Minister.

Panama: National Library To Make Corporate Governance Resources Available

The Institute of Corporate Governance – Panama (Instituto de Gobierno Corporativo - Panamá) worked with the Ernesto J. Castillero National Library of Panama to establish a library of corporate governance materials produced by the Forum, the IFC, the OECD, Brazil's Institute of Corporate Governance (Instituto Brasileiro de Governança Corporativa, IBGC), and others.

Board directors, researchers, and others can visit any library in any province and access printed and electronic versions of these materials. This corporate governance section is apparently the first such dedicated section of any national library located in the Central American region.

News reports about the event generated interest from the heads of several Panamanian companies to join the institute and learn more about how they could adopt corporate governance best practices.

"We are assisting Panama to build the resources needed to help business leaders learn more about corporate governance best practices that are based on integrity and accountability," said Joe Fidanque, the institute's president, at the event announcing the library initiative. The institute plans to sponsor and disseminate research and arrange training programs for board directors.

These and other efforts underway by Panama's institute are essential, said Bengt Hallqvist, a founder of Brazil IBGC, in helping companies understand that the "concept of corporate governance is more than a change of office furniture and secretaries, that it's a challenge of establishing a new culture at the board level."

Roberto Brenes, general manager of Panama's Stock Exchange, also noted the challenges for Panamanian companies, but stressed that each company must adopt an approach that "fits its own business needs, and not just use a 'one size fits all approach' when pursuing better governance."

The former board chairman of the Center for Excellence in Corporate Governance (Centro de Excelencia de Gobierno Corporativo), Adalberto Palma, also joined the event as part of a Forum-organized effort to gather Corporate Governance Institutes from Mexico, Brazil and Colombia, to support Panama in its start-up phase.

From left to right: Yauda Kuzniecky, National Library board director; Joe Fidanque, president, ICG - Panama; Nancy Metzger, senior projects officer, Forum; María Majela Brenes, National Library director; and, Raul Vaccaro, National Library board vice president.

TAKE-OVER AND TENDER OFFERS: EXPERIENCES IN CHILE, PANAMA

Like many other regions of the world, over the past ten years, Latin America has experienced its own chain of corporate governance scandals, followed by public outrage and reaction, leading to calls for reform. And as most participants in Latin American capital markets would recognize, Chile's response to the "Chispas" scandal of 1997 was the "granddaddy" of corporate governance reforms in the region. But what makes the difference between "calls for reform" and "*actual* reform?"

The Forum's upcoming FOCUS 6, *Drivers of Corporate Governance Reforms: Take-Over and Tender Offer Experiences in Chile and Panama* features insightful first-hand accounts by two former securities commission chairmen, Alvaro Clarke in Chile and Carlos Barsallo in Panama. Each shares their views and analyses.

The history and lessons of how to actually successfully achieve *and* implement good corporate governance reform, is what Álvaro Clarke recounts so eloquently in *FOCUS 6*. His reflections on the "Chispas" case, a massive misappropriation of shareholder value by corporate insiders, is the classic case of a minority shareholder protection reform born out of a scandal. The experience of Panama, presented as paradoxical to the Chilean experience, is the case of a minority shareholder protection reform introduced by the Panamanian securities regulator. The reform is then rejected by the market in theory, struck down by the courts of law, but accepted and followed in practice, even today.

Look for FOCUS 6 in Spanish in print and on the Forum Website in June: www.gcgf.org.

Advancing Corporate Governance in Mexico

Mexico has created several opportunities for investment and private sector development with the adoption of a new securities law.

Approved in 2005, the law (Nueva Ley del Mercado de Valores de México) is expected to foster venture capital financing, increase the number of publicly traded companies, and boost securities activity in the world's twelfth largest economy.

The law created three new kinds of corporations, including the "Sociedad Anónima Promotora de Inversión Burátil" (SAPIB). SAPIB establishes a legal framework for a medium-size, privately traded corporation to transition into a publicly held one within three years. All three types of corporations must comply with corporate governance practices. (For more information, visit: www.sapib.com.)

With this new legal alternative to non-listed companies, all investors, controlling and non-controlling, acquire rights and obligations which allow them to have much more control and transparency than before. These reforms are helping to better align interests among shareholders.

The Forum is partnering with the Mexican Stock Exchange (BMV), the Center for Excellence in Corporate Governance, and the Center for Business Coordination to support Mexican companies' efforts to comply with the corporate governance requirements of the country's recently enacted securities law. This effort, the SAPIB Project, will be launched in June 2008.

One of the challenges the project will address is the misunderstandings about an exchange listing, as a recent survey commissioned by the BMV has shown. Potential issuers perceived the stock market as only available to very large companies. They also expressed concerns about the registration costs and regulatory burdens. Some feared that disclosures could harm their strategies against their competitors.

To address these concerns, José Manuel Allende, director of listings for BMV, recently explained to *Capitalas* that the exchange contacted more 900 enterprises within Mexico. In its outreach efforts, BMV targeted small- and medium-sized companies with $10 to $150 million in revenues. Allende said the exchange will work closely with the companies who plan to list under the SAPIB structure and waive listing fees for a two-year period.

As a result of this initiative, five Mexican companies announced preliminary plans to organize as SAPIBs. The Forum is working with the Center for Excellence in Corporate Governance to provide corporate governance training for each of these companies.

Combating Corruption — The Role of Corporate Governance

The Forum and CIPE conducted an international consultation to examine the role of ethics and corporate governance mechanisms in helping the private sector to combat corruption.

Participants included CEOs, investment managers, and other senior executives from companies worldwide, as well as representatives from regional and international bodies such as the UN Global Compact, the Global Reporting Initiative, the International Chamber of Commerce, Transparency International, and the Corporate Executive Board.

The consultation surveyed the corruption challenges faced by companies and effective responses to mitigate the sources of corruption.

Participants examined the costs and benefits of incentive structures, increasing reputational costs, collective action initiatives, regulatory frameworks, and broad versus micro-level reforms that can make a significant impact on efforts to combat corruption.

Online: Download the written summary of the proceedings from the Forum's Website. Harvard Newsletter will also provide the report online to its subscribers.

While recognizing that much progress had been achieved in the past decade, and that the private sector no longer shrinks from tackling the tough issues of corruption, participants thought more could be done to reinforce the existing institutional framework of transparency, accountability and good governance. This was particularly the case to support the majority of developing countries' small to medium enterprises (SMEs) so they could thrive in competitive markets.

A draft background paper, *The Moral Compass of Corporations: Business Ethics and Corporate Governance as Anti-Corruption Tools*, examined the interrelationships among ethics, corporate governance, and anti-corruption, and current best practices adopted by boards and directors for building ethical business organizations. The paper will be revised for publication later this year as part of the Forum's *Focus* series.

"To make a difference in the fight against corruption, we need transparency-related reforms with spine, not rhetorical ones."

DANIEL KAUFMANN,
Director of Global Programs
at the World Bank Institute

"If you want to succeed in building a sustainable business at any point in time, you need to have good people to act as the cornerstone of your growth. The fact is that you cannot attract or retain top talent if you engage in corrupt practices."

TAWFIK DIAB,
Managing Director of PICO Petroleum in Egypt

Islamic Finance

The Forum, the Islamic Financial Services Board, and the World Bank organized a two-day seminar in March on corporate governance issues in Islamic finance. More than 60 senior bankers from Bahrain, other Gulf Cooperation Council countries, Indonesia, Malaysia, and Sudan attended the event hosted by the Central Bank of Bahrain.

The seminar:

- Highlighted corporate governance issues specific to institutions that offer Islamic financial services;
- Helped regulators and market participants improve their understanding of these issues, especially as the Islamic financial services industry continues to grow rapidly within the global financial system;
- Provided stakeholders with an opportunity to exchange views and experience about good governance frameworks and best practices; and,
- Generated discussion and policy recommendations about strengthening and improving the corporate governance of institutions that offer Islamic financial services, in accordance with internationally accepted standards.

H.E. Rasheed Mohammed Al Maraj, governor of the Central Bank of Bahrain, and Professor Rifaat Ahmed Abdel Karim, secretary general of the Islamic Financial Services Board, delivered the opening remarks.

Peter Dey, Private Sector Advisory Group chairman, emphasized the connection between good corporate governance and proper functioning of the economy. He also addressed the main challenges in corporate governance and suggestions on how to overcome them.

"We recognize the challenges of good governance, and have thus prepared several principle-based corporate governance guidelines, covering institutions that offer Islamic financial services as well as Islamic collective investment schemes," said Professor Karim, the IFSB secretary general. "We are also developing corporate governance guidelines for takâful operations and Sharî`ah governance. We trust these guidelines will inculcate strong governance in Islamic financial services and contribute to confidence and financial stability in the industry."

News Organizations and Corporate Governance

In the latest *Private Sector Opinion*, Donald Nordberg, a former senior editorial executive at Reuters and a consultant for Dow Jones, explores the governance of Dow Jones and Reuters. Both media giants received takeover bids in 2007 from, respectively, Thomson Corporation of Canada and Rupert Murdoch's News Corporation.

What emerges from Nordberg's account (available online) is that the different forms of takeover protection operated by the two companies contributed to relative underperformance in both cases over protracted periods.

Reuters was regarded as the more innovative of the two companies in the financial markets. That's because its market position had eroded to the point where product market competition provided a more powerful governance discipline than what any board could do.

Dow Jones never experienced the kind of competitive shock to its business that Reuters underwent when Bloomberg entered its markets. As a consequence, Dow Jones suffered from prolonged strategic drift as a business, even though the integrity of its news coverage was preserved.

"These two such closely linked companies—often competitors, sometimes collaborators—from two different countries both relied upon a heresy in corporate governance: that shareholder value and shareholder rights were *not* supreme," Nordberg writes.

The paper concludes that there will always be tension between shareholder value and the social value of integrity in news gathering. In the case of the News Corporation's purchase of Dow Jones, Nordberg suggests that shareholders may have as much of a concern about Rupert Murdoch enjoying private benefits of control as journalists have about the potential erosion of the *Wall Street Journal*'s independence.


Global Corporate Governance Forum

Private Sector Opinion

Issue 7

A Global Corporate Governance Forum Publication

NEWS AND CORPORATE GOVERNANCE

What Dow Jones and Reuters teach us about stewardship

Foreword

Corporate governance in the media faces an intractable problem. There is an important public interest in the integrity of news, which is the lifeblood of an open society. Yet the shareholder value model of governance offers no guarantee that the integrity of news will be protected. Indeed, conflicts of interest abound in a business where dominant CEOs often put their own private interests before those of other shareholders, reflecting the principal/agent problem, as well as before those of society. So media organisations have often opted for a stewardship model of governance whereby the integrity of news is a predominant aspect of the corporate purpose. Under various mechanisms providing protection from hostile takeovers, directors of many media groups are required to balance the potentially conflicting obligations to look after the public interest and the shareholders' interests.

In this paper Donald Nordberg, a former senior editorial executive at Reuters who also worked as a consultant for Dow Jones, explores the respective governance of these two media giants, which received bids last year respectively from Thomson Corp of Canada and Rupert Murdoch's News Corp. The perception that Rupert Murdoch had given in to pressure from the Beijing government to drop news channels from his company's television transmissions into China raised the issue of conflicts of interest very starkly for executives and journalists on the Wall Street Journal, the crown jewel of the Dow Jones group.

What emerges clearly from Donald Nordberg's account is that the different forms of takeover protection operated by the two companies contributed to relative underperformance in both cases over protracted periods. To the extent that Reuters could be regarded as the more innovative of the two companies in the financial markets, it was because its market position eroded to the point where product market competition provided a more powerful governance discipline than any board could do. Dow Jones never experienced the kind of competitive shock to its business that Reuters underwent when Bloomberg entered its markets. A consequence was that Dow Jones suffered from prolonged strategic drift as a business, even though the integrity of the news was preserved.

IFC International Finance Corporation

REUTERS FOUNDATION SUPPORTS TRAINING

The Reuters Foundation has partnered with the Forum to train journalists about corporate governance.

Focus: *Novo Mercado and Its Followers*

In October 2007, BOVESPA Holding SA successfully launched its own initial public offering, raising $3.7 billion, the fifth largest in the world in 2007, according to Bloomberg. According to the new *Focus* publication, *Novo Mercado and its Followers: Case Studies in Corporate Governance Reform*, private-public sector leadership helped drive the success of corporate governance reforms undertaken by Brazil's São Paulo Stock Exchange (BOVESPA), which is now the world's largest among emerging market countries.

Maria Helena Santana, chairperson of the Brazilian Securities and Exchange Commission, writes that Novo Mercado's viability was in doubt when it was launched. "Since adherence by companies to its rules is voluntary, Novo Mercado could only become a reality if investors and other suppliers of capital demanded compliance and if companies considered corporate governance obligations to be advantageous."

To address investors' needs, BOVESPA launched Novo Mercado (new market), which required companies to voluntarily adopt high standards of corporate governance that exceeded those required by Brazilian law. These included an expansion of shareholder rights and comprehensive disclosure obligations. While at BOVESPA, Santana was in charge of creating and implementing the Novo Mercado and two Corporate Governance Levels.

Novo Mercado had broad support from the Brazilian Institute of Corporate Governance, the regulator, the IFC (including the Forum), the OECD, and both institutional investors and investment banks in Brazil. With that support, Novo Mercado evolved into becoming the "standard that investors would require for new companies seeking to go public."

Petra Alexandru, an executive manager with the Bucharest Stock Exchange in Romania, looks at her exchange's efforts to follow Novo Mercado by implementing a new corporate governance segment, the "Transparency Plus Tier." In contrast to Novo Mercado's voluntary approach, the corporate governance requirements were imposed on companies by the exchange and the country's legal code.

The effort did not achieve the success that its supporters had hoped, Alexandru writes, because "Romania's capital market was not prepared to implement corporate governance standards. The positive attitude of the local issuers towards observing such standards was overestimated. While most companies declared their support towards observing corporate governance rules, very few were willing to introduce them in their charters."

Despite the initial failure of the Transparency Plus Tier, the exchange did achieve several notable successes. Some blue chip companies have adopted portions of the code's provisions. In addition, BVB is implementing the "comply or explain" approach in 2008 to adhere to the European Union regulations on corporate governance. Romania expects to finalize the updated code during the first half of 2008.

Authors Melsa Ararat and B. Burcin Yurtoglu looked at the Istanbul Stock Exchange's (ISE) efforts to promote better corporate governance among their listed companies. Ararat is director of the Corporate Governance Forum of Turkey, which is hosted by Sabanci University in Istanbul. Yurtoglu is a professor with the Department of Economics at the University of Vienna.

Ararat and Yurtoglu link Brazil's success to the influence of a broader range of investors, including pension funds and foreign investors, than what was possible in Turkey. Additional problems also proved to be obstacles. A weak legal foundation, few (if any) effective drivers of change, and the lack of sufficient incentives for the private sector are some reasons why few companies in Turkey have adopted corporate governance reforms, they write.

BOVESPA will be translating the publication into Portuguese and distributing it throughout Brazil.

(View the publication on Forum's Website.)

Key Takeaway:
Brazil's public and private sectors had big incentives in making Novo Mercado work, at least partly as a response to the crisis in BOVESPA. Yet, success took several years to accomplish, illustrating that corporate governance reforms are rarely achieved immediately. The publication has generated interests from many countries, including Argentina, the Philippines, and Turkey.

The Novo Mercado's experience was among the many issues participants discussed at the conference on EU corporate governance.

PSAG interview: The value of governance scorecards

Christian Strenger, deputy chairman of the Private Sector Advisory Group, is adviser on capital markets, corporate finance, and asset management. He sits on boards of asset management and industrial companies. An MBA graduate of the University of Cologne, Strenger has held a variety of positions in banking and finance. Between 1991 and 1999, he was CEO of DWS Investment, GmbH, the largest mutual fund manager. Strenger is a member of the German Government Commission on Corporate Governance and served as chairman of the International Corporate Governance Network (ICGN) in 2005-2006.

In Bulgaria, you are working to put into place a scorecard process, following the country's adoption of a Corporate Governance Code. What is the value of a scorecard?

The building of the Corporate Governance Code of Bulgaria is a crucial step for the development of a functioning Bulgarian capital market and economy. The successful implementation of good governance is very much in the self-interest of Bulgaria's companies and investors. For companies, it is paramount in getting external financing at a reasonable cost (equity and debt). For investors, it means higher returns by pursuing good governance at the companies through active, responsible engagement.

Now that Bulgaria has a code, the work must focus on ways to encourage application, compliance, and measurement of progress. A Corporate Governance Scorecard is one way to achieve these goals. Not only for domestic investors, the scorecard provides an opportunity to measure the degree of fulfillment and the deficits that still need to be addressed by the companies. They can compare their actual governance status against those in the same industry and others based outside the country. The scorecard is an implementation tool for governance that focuses on the practical application. The information is presented in a way that investors and other stakeholders can readily understand.

The scorecard's main features:

- Facilitate the work of analysts and investors through a systematic overview of all relevant issues of good governance
- Enable companies to easily assess the "reach" and quality of their own governance situation
- Be readily available via the Internet
- Very little or no cost for implementation and application by companies and investors
- Allow investors to set minimum scores for governance as part of their general investment policy

What are the common components of a scorecard?

There are seven broad areas for a scorecard:

- Commitment to corporate governance (including stakeholders)
- Protection of shareholder rights
- Cooperation between management board and supervisory board
- Management board
- Supervisory board
- Disclosure of information
- Audit and internal control

Individual scores for those areas are computed to reach a total score for the individual company that reflects the present governance quality.

What are the obstacles in implementing a scorecard?

Initially, companies are not overly enthusiastic about the scorecard, because they see the danger of a critical opinion by third parties. Another question is its condensed approach – that it would be just 'ticking the boxes'. To counter this, scorecards use weightings to gauge the importance and impact of different aspects of corporate governance.

Many companies now see the scorecard as a useful tool to show their own corporate governance qualities. They also use it for internal comparisons and benchmarking against the competition. But in the first place the scorecard is an opportunity to attract investor and customer attention from the outside world.

What factors can promote its implementation?

Involving a wide variety of people to present the quality of a company's corporate governance standards – this helps to gain credibility with financial analysts, investors, and also the media. Their different viewpoints will also enhance the quality of the evaluation. PSAG members should go out to help people understand the value of corporate governance and to learn how to put best practices into effect via a scorecard.

CALENDAR

For upcoming and recent events of the Forum, please visit the Website: www.gcgf.org.

Private Sector Experts: A Key Forum Resource

The Global Corporate Governance Forum's Private Sector Advisory Group (PSAG) brings together more than 75 of the world's most prominent experts on corporate governance. Business leaders, lawyers, investors, and other professionals volunteer their time and expertise pro bono to help implement better corporate governance practices in developing and transition countries.

The high profile of the PSAG members helps the Forum actively raise awareness on corporate governance issues and efficiently advise professional organizations, regulators, and policymakers who are proactively reforming corporate governance practices in their countries.

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