

Global Corporate Governance Forum

Better Companies, Better Societies

SUMMER 2010

A Progress Report



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Global
Corporate
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Forum



ABOUT THE FORUM

The Global Corporate Governance Forum is the leading knowledge and capacity-building platform dedicated to corporate governance reform in emerging markets and developing countries. The Forum offers a unique collection of expertise, experiences, and solutions to key corporate governance issues from developed and developing countries.

The Forum's mandate is to promote the private sector as an engine of growth, reduce the vulnerability of developing and emerging markets to financial crisis, and provide incentives for corporations to invest and perform efficiently in a transparent, sustainable, and socially responsible manner. In doing so, the Forum partners with international, regional, and local institutions, drawing on its network of global private sector leaders.

The Forum is a multi donor trust fund facility located within IFC, cofounded in 1999 by the World Bank and the Organization for Economic Cooperation and Development (OECD).

Building on Success: Forum's Phase Three

The Forum is challenged to sustain its momentum while continuing to pioneer new initiatives. In July 2010, the Forum will embark on Phase Three: a five-year plan to meet new demands for assistance and expand the Forum's groundbreaking work.

Training Boards: New Efforts Focused on Banks, Dispute Resolution

Governing Banks focuses on those topics of particular interest to bank directors, including risk management and the economics of banking. *Resolving Corporate Governance Disputes* will help Institutes of Directors and others provide training in alternative dispute resolution mechanisms.

Thought Leadership: Value of Good Governance; Addressing Corruption

Private Sector Advisory Group (PSAG) member Patrick Zurstrassen examines corporate governance's value after the financial crisis. Forum Head Philip Armstrong outlines how countries and companies can address corruption, which has debilitating consequences in the fight against poverty and for social and economic justice.

Media Training: Improving Coverage of Corporate Governance

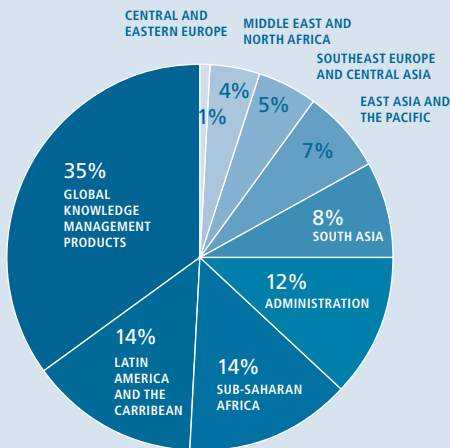
Training workshops help journalists do a better job of covering corporate governance. More workshops were held in 2010 than in the year before, with programs in Bangladesh, Brazil, Chile, Jordan, and Vietnam.

Building on Success: Forum's Phase Three Plan for Advancing Corporate Governance Excellence

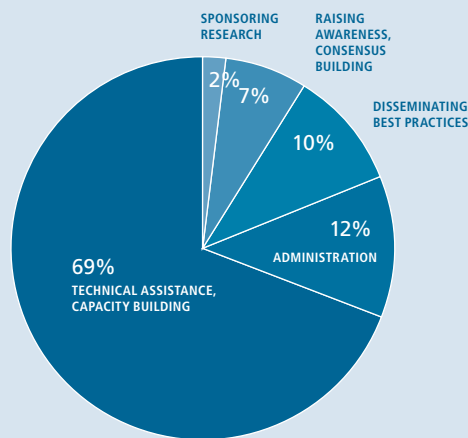
Since its founding in 1999, the Forum has demonstrated repeatedly its unique value and effectiveness in assisting developing and emerging-market countries with implementation of corporate governance reforms.

Financial Summary (Fiscal 2010)

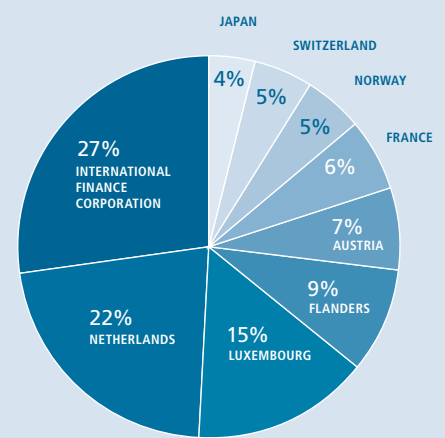
REGIONAL DISTRIBUTION OF FORUM ACTIVITIES



FORUM ACTIVITIES



SOURCES OF FUNDS



Skilled use of leverage, numerous in-country and regional partnerships, innovative programs and products, and an unmatched global network of private sector leaders are a few of the reasons behind the Forum's success.

"The Forum is the only global facility of its kind that provides corporate governance knowledge and capacity-building resources dedicated exclusively to emerging-market and developing countries."

2010 Independent Evaluation Report

As the Forum has achieved results, institutes of directors, governments, and non governmental organizations, among others, have sought more of its assistance. The current global financial crisis has also triggered additional requests for the Forum's immediate intervention.

These ever-growing demands require increasingly sophisticated expertise and greatly enlarged financial and nonfinancial resources, including intensive and diverse partnerships. As a result, the Forum is challenged to sustain its momentum of accomplishments while continuing to pioneer new ideas and initiatives.

To fulfill its work and meet new demands for assistance, the Forum will embark on Phase Three (fiscal years 2011–15) starting July 1, 2010. This phase will strengthen its global Knowledge Management Platform through three strategic objectives:

1. Introducing cutting-edge knowledge products.

The Forum will expand its support of and access to international best practices in corporate governance.

These efforts will:

- Develop new and exclusive reform tools focused on the particular needs of developing and emerging-market countries
- Update and translate toolkits
- Issue best-practice publications
- Provide thought leadership on corporate governance issues
- Support cutting-edge research through the Forum's academic networks
- Broaden access to the Forum's products through the Web

2. Building the capacity of regional corporate governance centers and fostering South-South cooperation.

These centers will distribute and apply the Forum's knowledge products locally and regionally while supporting South-South capacity building. Through this approach, the Forum can build scale in its global activities and use its resources more efficiently and cost effectively. The centers can incubate the application of the Forum's products and tools.

3. Developing a monitoring and evaluation mechanism to continually assess the global Knowledge Management Platform's success.

This will help the Forum ensure that its knowledge products remain relevant, cutting-edge, and responsive to the beneficiaries' changing needs.

To meet Phase Three objectives, the Forum's donors are increasing their support. The Forum is also pursuing bilateral funding, cofunding, and cost sharing with client beneficiaries. The Private Sector Advisory Group's *pro bono* contributions will also help meet the demand.



Forum's Steering Committee deliberates in São Paulo.

"Phase Three's tightly focused approach will optimize the Forum's role in harnessing good practices in corporate governance worldwide and formulating these as important tools for development."

Thierry Buchs

Chairman, Forum Steering Committee

"By creating a large public demand for reforms, the current crisis offers another opportunity to improve governance arrangements. This opportunity should not be missed."

Professor Lucian Bebchuk

Harvard University

MEETING CLIENT DEMANDS

Between fiscal years 2006 and 2010, the Forum accomplished several significant achievements:

- Organized 280 learning events, reaching nearly 2,600 participants globally, with women accounting for 45 percent of total participation in 2009; participants were typically "satisfied" or "highly satisfied"
- Provided more than 70 countries with advice, counsel, programs, and products, with the International Development Association countries' participation exceeding 40 percent
- Assisted in developing 43 corporate governance codes
- Supported 47 director and corporate governance associations with expertise, advice, and resources

Independent Evaluation Cites Forum's 'High Performing' Achievements

The 2010 *Independent Evaluation Report* found the Forum to be a “high-performing, relevant, and impactful” organization despite its modest size and resources.

“Its achievements have been considerable, deeply appreciated, and widely recognized,” the report said. “Many have expressed with passion their belief in the value of the Forum’s work. Given its record of accomplishments, the Forum can already claim to be the pre-eminent knowledge management body on practical corporate governance issues globally.”

“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 World Bank Group.”

2010 Independent Evaluation Report

The evaluation report found that “the Forum draws on a global/local view, state-of-the-art expertise, an extensive professional network, dedicated PSAG advisors and staff, and high-quality toolkits” to accomplish its goals. However, warns the report, “The potential for replicability of project interventions is high while current capability for scaling-up is severely resource-constrained.” (To learn more, read the report and *Lessons Learned* on the Forum’s website: www.gcgf.org.)

The review concludes that the Forum “is engaged in delivering an array of worthwhile and needed services of a high quality in a remarkable variety of situations.” Most experts view the Forum’s work as being even more relevant in the aftermath of the financial crisis as governments promote economic recovery.

The Forum’s success lies with its field-tested strengths and competencies:

- **Leverage, cost efficiency, proven effectiveness**—The Forum leverages PSAG and other partners in a cost-efficient manner that maximizes cofunding from partner institutions and spreads cost sharing among beneficiaries.
- **Innovative global expertise and networks**—The Forum has a widely recognized ability to innovate through its toolkits and other best-practice guidance tools, which draw on its global network of institutions and practitioners in developed and developing countries.
- **Partnerships**—The Forum has a widely acknowledged track record in building strategic and tactical partnerships that drive its work in a cohesive, coordinated approach to development assistance. The Forum facilitates participation of a broad range of international, regional, and local institutions in its work.

In the view of one local partner, the Forum is effective because it “listens a lot,” emphasizing: “That’s very important; the Forum responds to real needs... They adapted, listened, and tried to provide what we asked for.”

A PSAG member adds, “The Forum has been extraordinarily successful in bringing together thought leaders from around the world—it contains a very large share of the leading lights in corporate governance. Having such a remarkable collection of people who provide their services on a *pro bono* basis is an extraordinary achievement.”

The independent evaluation repeatedly stresses the Forum’s emphasis on local ownership of corporate governance initiatives. “The Forum staff, consultants, and PSAG advisors are mindful of the need to interact with local partners and participants, not in a top-down or ‘West knows best’ manner, but in ways which acknowledge local capabilities and circumstances. Projects are designed with, rather than for, local actors.”

“Congratulations on a fine report and a very strong record of accomplishment. We are very pleased to be associated with the Forum’s work and will be looking forward to working with you over the next years.”

John D. Sullivan
Executive Director

Center for International Private Enterprise (CIPE)

The report cites many examples of the Forum’s “snowball effect”—the multiplier effect of corporate governance reform efforts initially made possible by Forum interventions. These include code development in the Middle East and North Africa, the *Corporate Governance Board Leadership Training Resources*, and the program with the Southern Africa Development Finance Institutions.

The report warns, however, that because of the increasing demand for its assistance, the Forum’s pace of growth may not be sustained by the present combination of governance and management arrangements. “The changes required to resolve funding and administrative placement difficulties do not have to be major ones but they are necessary and they carry some urgency.”

These challenges include obtaining secure and adequate funding, expanding the secretariat’s staff, revising PSAG’s governance structure to maximize its benefits, and investing more effort in “contextualizing” the Forum’s training materials so that they are more relevant to the issues and environments in which the training participants work and live.

The Forum is working with its donors and partners to address these challenges through Phase Three initiatives.

“The Forum fights hugely beyond its weight. It has created an environment for corporate governance to flourish and for the corporate governance advocacy community to get traction.”

**PSAG member quoted in
2010 Independent Evaluation Report**

MENA Corporate Governance Codes

Since its founding, the Forum has actively participated in efforts to develop corporate governance throughout the MENA region. The *Independent Evaluation* cited this example to illustrate the Forum’s impact. (See *Lessons Learned: Implementing Corporate Governance Codes in MENA* on the Forum’s website: www.gcgf.org.)

This highly successful program:

- Influenced the corporate governance reform process—while effectively preserving national ownership—during the launch of 14 national codes from a baseline of just two countries with codes in the entire region
- Positioned the Forum itself for more comprehensive technical assistance to MENA members
- Gained the Forum tremendous visibility, a reputation for professionalism, and strong brand recognition

Khalid Deeb, director general of the Abu Dhabi Center for Corporate Governance, said the Forum “helps the efforts of various countries to develop and enhance the corporate governance and business environment.”

“Good corporate governance today constitutes the most important element in guaranteeing the healthy development and growth of companies, protecting them from the repercussions of any local or international crisis, attracting foreign investment, improving general performance, and boosting local and international confidence in them.”

Adnan Kassab

Minister of Economy and Trade
Lebanon



The Moroccan Corporate Governance Commission asked the Forum to provide technical assistance to guide development of a corporate governance code.

Corporate Governance Ensures Accountability, Drives Performance



Forum PSAG member Patrick Zurstrassen is the founder and honorary chairman of The Directors' Office, the leading practice of independent directors in Luxembourg. Mr. Zurstrassen is an independent director or board member for several investment funds and companies, with extensive experience in the Luxembourg and European banking and fund management industry, including chairmanship of both the Association of the Luxembourg Fund Industry and the European Fund and Asset Management Association. He spent 30 years with the Crédit Agricole Indosuez Group, after which he founded The Directors' Office. He is president of the Management Committee of MDO Services. He has lectured on finance at the Catholic University of Louvain, Belgium. He is currently chairman of the Luxembourg Institute of Directors.

Given your extensive involvement in corporate governance, what do you think are the lessons that can inform the Forum's work?

As we learn more and more about the reasons why the financial crisis occurred, and as we continue to worry that we may confront a new round of problems caused by different circumstances, this time perhaps triggered by sovereign debt problems, corporate governance has come under attack by some as a failure.

But I would say that it was not corporate governance itself—the principles and best practices—that were the problem. Rather, it was its implementation by boards and the seeming willingness to blindly trust strategies, including high exposures to risk, because those strategies were highly profitable.

Once the “perfect storm” hit, initially in the credit markets as the U.S. property bubble burst, it became increasingly clear that the risk-management approaches boards set up in financial institutions were failing for many reasons, including inappropriate risk-measurement processes and lack of informed risk governance. Reckless risk taking was too often the accepted norm. Few saw the implications of the many interdependencies within financial markets worldwide.

Directors ignored the warning signs, didn't understand the technical aspects of financial instruments, or couldn't grasp

how bad a financial collapse could be, given the long stretch of prosperity and extraordinary market performance post World War II.

In one way, our lesson is a simple one, but in another way, a very difficult one to achieve and sustain. Directors must do due diligence to ensure that risks are managed and that the evidence to prove this point is valid and understandable. If they lack expertise in understanding their role, core concepts in corporate governance, key accounting terms, and their companies' balance sheets, they should take the time to learn and eliminate those intellectual weaknesses.

The Forum realized the value of building the capacity of board directors through its *Corporate Governance Board Leadership Training Resources*. Through its Phase Three, it plans to intensify those efforts by focusing on building the capacity of regional centers for developing corporate governance excellence.

To summarize, then, the lesson learned is that companies must have in place policies and practices in accordance with best practice, that directors actively monitor those policies and practices, and seek reforms, and that directors, also, make sure they are well-versed in what they need to know, including leadership skills, to be effective directors. In those companies owned by shareholders, investors must do their work, too, in holding directors accountable.

“The lesson learned is that companies must have in place policies and practices in accordance with best practice, that directors actively monitor those policies and practices and seek reforms, and that directors, also, make sure that they are well-versed in what they need to know.”

You singled out the Forum’s board director training as one initiative that is particularly relevant now. What are some of the other Forum initiatives that you believe are essential?

For a small organization, they have a lot of ground to cover and are doing so extremely well by leveraging the resources they have.

Corporate governance code development is another important area for the Forum. Codes provide a structure for companies and other organizations to follow—standardization enables investors, for example, to compare more easily how different companies adhere to transparency, accountability, and so on.

Code development and implementation—this has been a successful endeavor for the Forum, in part because they have let leaders in the country “own” the process rather than rely on others to do the work. By owning the process, they have a stake and learn more about the code and how it will affect businesses, since they are involved in forging the compromises to arrive at a final code.

Once the code is written and put into practice, the next challenge is the use of mechanisms to ensure that the code is being followed. The Forum is encouraging, for example, the use of scorecards, which is also being met with much interest.

PSAG Deputy Chairman Christian Strenger has been a champion of scorecards. (See sidebar with Strenger’s thoughts on enforcing corporate governance codes.)

Where would you like to see the Forum be in the next few years?

They are starting Phase Three of their development, which will expand their knowledge management platform. This is the appropriate way forward for them, as the *2010 Independent Evaluation Report* confirms.

They have well established themselves with regard to the products they have produced and the reputation they’ve achieved. Their challenge now is to build on that foundation. By working with regional corporate governance centers, they can help countries and regions more effectively replicate well-proven approaches to corporate governance reforms.

Their role as a thought-leader, too, is becoming more prominent, as the Forum draws on diverse experiences worldwide from the public and private sectors. Those practical insights are very beneficial to directors, policymakers, and others, who can benefit from those on the frontier of corporate governance reforms and development.

Monitoring Corporate Governance

To Patrick Zurstrassen’s point about the importance of ensuring code compliance, PSAG Deputy Chairman Christian Strenger offered the following counsel at the launch of the Bulgarian National Corporate Governance Commission in September 2009:

Monitoring corporate governance is essential for achieving good governance quality.

These benefits can be achieved with efficient monitoring by the various parties. For example:

- Effective monitoring and stringent enforcement can be achieved only by excellent cooperation and division of labor (instead of duplication) by the public regulatory and supervisory bodies for the capital markets.
- Centralized competencies of market supervision, enforcement, and court procedures significantly increase the expertise in the complex market supervision process.

However, it is no box-ticking exercise and should not be left to a single authority. The German experience shows that although the “comply or explain” approach provides companies with necessary flexibility, good governance quality can be achieved only by a concerted monitoring effort of all public, semi-public, and private bodies.

Also necessary for good governance quality is a close alignment of monitoring and enforcement. Although a sound legal background is necessary, sufficient compliance with the code and the relevant legal provisions can be achieved only with efficient enforcement that is not shy to sanction wrongdoing.

Resolving Corporate Governance Disputes: Training for Board Directors

Although less common for well-governed companies, most companies experience corporate governance conflicts or disputes. Left unresolved, these disputes can paralyze the board, harm the company's performance, and deter investors.

Implementing effective dispute resolution processes for preventing and resolving corporate governance disputes is thus essential if the company is to succeed



Board leadership training.

What Are Corporate Governance Disputes?

Corporate governance disputes involve corporate authority and its exercise. Governance disputes involve the board's powers and actions or its failure or refusal to act. These conflicts may arise between the board and its shareholders, or between directors and executive management. They may also involve issues among the directors themselves and between the board and other stakeholders. A governance dispute implicates the board in one way or another as a party, or as an active participant, and requires the directors' concurrence to resolve the conflict.

AHEAD

Once published in the summer, the toolkit *Resolving Corporate Governance Disputes* will be rolled out through regional training programs worldwide.

over the long term. Just as boards have crisis management plans, so, too, should they develop and adopt dispute resolution strategies, policies, and processes. (See: *Mediating Corporate Governance Conflicts and Disputes. Focus 4*, by Eric M. Runesson and Marie-Laurence Guy, November 2007. Available in English and Ukrainian, the publication is on the Forum's website: www.gcgf.org.)

To help boards achieve this goal, the Forum is developing a new toolkit, *Resolving Corporate Governance Disputes*. This product shows directors how to prevent and efficiently resolve corporate governance disputes by drawing on consensus-based alternatives to court adjudication.

In May, the Forum launched pilot dispute resolution training. Hosted by the OECD, this half-day training course was attended by 50 members of Brazil's Institute of Corporate Governance (IBGC), including board directors of Brazil's largest companies. The session's objective was to build awareness on:

- What corporate governance disputes are and how they differ from other types of disputes
- Who is involved in such disputes and how they can affect all types of companies
- Why it is important to prevent and resolve corporate governance disputes efficiently
- What are the potential negative impacts, costs, and risks associated with corporate governance disputes
- What are the benefits of alternative dispute resolution processes and techniques, and the limits of litigation
- What the board's role is in properly preventing and addressing corporate governance disputes
- How to apply dispute resolution skills (assisted by a role-play exercise)

The participants considered the course a success overall. One said, "What I liked best about the course is the way it was conducted. A great balance between theory,

examples, and practice." The overwhelming number of participants said they were "very satisfied" or "satisfied" with the overall quality of the course and unanimously enjoyed the role-play exercise.



TECHNO CASE STUDY

This case explores how the personal problem of the company's CEO—selling her shares of Techno Ltd. to pay her divorce settlement—may affect the share value of Techno Ltd. and trigger a covenant that could end the company's credit facility. This case draws out other issues, including the succession plans of the founder/chairman after his retirement and one board director's skepticism of the value of an external dispute resolution expert. In the role-playing exercise, participants consider how to solve the issues involved in using best practices for alternative dispute resolution. The roles are: Founder/Chairman Paul Schmidt; his daughter and CEO Rosemary Schmidt; independent board Director John Doe; and the external dispute resolution expert J. Alfred Peacemaker.

Applying this case study, participants learn to:

- Understand and practice family governance disputes
- Review the benefits and limits of using external dispute resolution experts
- Discuss the benefits of adopting corporate governance dispute resolution policies

Bank Training Module Launched with Indonesia's Institute

The Forum has developed *Governing Banks* as a training resource for bank board directors in emerging-market countries. This supplement is based on an extensive review of literature, international consultations, peer reviews, and interviews with directors, bankers, chief risk officers, regulators, and independent experts, who reflect perspectives from all regions.

Governing Banks forms an integral part of the Forum's *Corporate Governance Board Leadership Training Resources*, which has proven to be a major success in its global rollout. It provides comprehensive material and guidance on all key aspects of board leadership, with particular emphasis on strategy formulation, financial controls, supervision and reporting, risk management, and corporate social responsibility.

The Forum partnered with the Indonesian Institute for Corporate Directorship to introduce *Governing Banks* in Indonesia as a platform for further rollout in Asia and globally.

Business leaders, corporate governance experts, and practitioners from Indonesia's banking sector participated in the official launch event in March.

Globally, the project will be implemented by regional centers. By offering the key elements of a training program in a comprehensive package (the supplement, local contextualization, a network with regulators and banking thought leaders, and training of trainers), the Forum will help centers become well-positioned to quickly implement sustainable training programs for non executive bank directors.



Workshop discussion to evaluate and validate the new *Governing Banks* supplement.

Working with the Forum, the centers will accomplish two goals:

- Gaining market-wide “buy in” for the project by involving regulators and thought leaders; and
- Creating a local informal network of banking regulators, directors, and training center counterparts (or reinforcing the network should it already exist) to allow more rapid responses to any future crises.



Governing Banks takes academic, industry, and regulatory thinking and creates a journey taken by a newly appointed director of a bank to acquire the understanding, skills, and insights needed to meet the unique challenges faced by bank directors.

Nejmeh Bank is a fictional bank that incorporates current practices of real banks that performed well during the financial crisis of 2007–09. In the narrative, Alex is a newly appointed bank director who undergoes a journey to acquire the understanding, skills, and insights required

of his new position. The focus of his induction program is bank risk and the importance to sound banking of controlling that risk in a manner that does not hold the bank back, nor let it proceed unchecked. Topics reviewed include:

- Governance of risk management
- Bank's role in the economy
- Risk and the economics of banking
- Bank regulation and oversight
- Risk management and measurement

Nejmeh Bank is conceived as being led by a unitary board, but that is not to suggest that this is the preferred model. Empirical evidence of the comparative performance of European banks during the financial crisis that began in 2007 does not suggest that either the unitary or dual-board model increased or decreased the likelihood of bank failures. Board practices described in *Governing Banks* are applicable to both a unitary board and the supervisory board of a two-tier board. Executive committee practices apply to the management board of the two-tier board structure.

Governing Banks recognizes that banks are different from other commercial enterprises. Few, if any, other business sectors have such effects on the real economy. Few, if any, other businesses have the inherent fragility of banks built into their business models.

AHEAD

The Forum is partnering with the Indonesian Institute for Corporate Directorship (IICD) in developing a training-of-trainers program, to be convened in September 2010. During this program, selected trainers will learn how to deploy these materials. This will then serve as a platform to roll out the program across East Asia through the Institute of Directors of East Asia Network (IDEA.net).

As the supplement is introduced globally, it will be contextualized to the particular market demands and regulatory framework where the Forum supports self-sustaining capacity for board training programs.

Trainers Assess Board Training Efforts To Guide Institutes

For companies to be well-governed, their boards must fully understand and put into practice corporate governance principles. Too often, directors have the business acumen but lack a deep understanding of corporate governance or the leadership skills required to reform policies, practices, and behaviors that can undermine a company's performance.

Although good instructional material and curricula have been in place in many countries, some training centers, particularly in developing and transition economies, lacked the resources to develop their own curricula or had weaknesses in their programs.

"5Rs"—Adult Learning Principles

These five learning principles provide a solid, flexible framework for encouraging adult learning and leadership:

Respect

Create an environment that is welcoming and engaging.

Reason

Adult learners are goal-oriented. To begin, relate common concerns to the learning objectives. A shared understanding of challenges provides the rationale for group cooperation and innovation.

Roles

Provide opportunities for diverse adults to assume leadership roles. Balance

responsibility and authority during participatory group learning.

Relationships

Encourage professional mentoring, teambuilding, and networking. The consensus on norms promotes open, inclusive behaviors and helps to protect reputations ("save face").

Rewards

Formulate action steps and celebrate the positive transfer of the training to corporate boards.

The Forum gathered IoD representatives and the international faculty in São Paulo for a workshop in late February 2010. (See *Lessons Learned: Institutes Share Successes and Challenges in Training Board Directors to Lead Corporate Governance Reforms* and *Smart Lessons* on the Forum's website: www.gcgf.org.)

The workshop set out to:

- Help IoDs, which are at various stages of development, broaden and strengthen their training programs as demand increases "exponentially," as one trainer put it
- Enhance the efficiency and effectiveness of disseminating and implementing the *Training Resources*
- Examine how Brazil's Institute of Corporate Governance (IBGC) used the *Training Resources* from the viewpoint of the institution itself, the trainers, and the board directors (the end users)
- Explain Phase Three and solicit feedback from the IoDs

"The Corporate Governance Board Leadership Training Resources has revolutionized the way the Institute of Directors of Zambia conducts its training programs in a very positive way."

Victoria Silutongwe

Executive Director
Institute of Directors of Zambia

To remedy this problem, the Forum developed *Corporate Governance Board Leadership Training Resources* for Institutes of Directors (IoDs) and other organizations that train board directors.

The Forum's approach is unprecedented in the breadth and depth of its innovative curricula, including the use of adult-learning approaches to maximize the training's usefulness and impact.

Since its launch in 2008, more than 300 trainers from 55 countries have completed the Forum's "train the trainer" program. To take stock of the two-year effort, the

Overall, the workshop participants praised the *Training Resources* for its thorough, well-organized curricula and the emphasis on adult-learning techniques. IoDs saw the Forum product as an incentive to interest more board directors in training programs and enhance the institute's "brand." They also thought the training modules' flexibility provided many ideas for offering different types of training, some tailored to the specific needs of companies or organizations.

Throughout the workshop discussions, trainers repeatedly emphasized that they,

too, had to “grow” in how they conduct training sessions, “rethinking learning concepts,” and “better understanding the participants’ perspectives.”

“The Forum/IoDs program pushes trainers out of their comfort zones to develop new training approaches to engage adult learners,” said Irena Prijović, secretary general of the Slovenian Directors’ Association.

The trainers also emphasized that adult-learning approaches demand that trainers create and sustain an animated dialogue throughout the training — for example, the sessions should not be “one way” lectures. Further, applying what is learned, not “memorization” of the curricula’s contents, should be the objective.

“I have used the ‘Introduction to Corporate Governance’ module in the Investment Advisors and Stockbrokers course organized by the Securities Exchange Commission, the Lusaka Stock Exchange (LUSE), and the Zambian Insurance Business College Trust. This is a competency program with an examination for people wishing to be considered as investment advisors and stockbrokers in the capital market in Zambia. Without this training, you cannot get a license to operate and corporate governance is one of the program’s key topics.”

Julu Simulu
Vice Chairman and
Head of the Education Committee
Institute of Directors Zambia

“The real barriers are not the content but the teachers,” said Arturo Neves, an IBGC Trainer and Amphi Consultant. “We have our own mindsets. We have had our own ways of teaching corporate governance, but the Training Resources is showing us new ways to inspire participants. Our challenge: How can we stimulate trainers to use the new training methods and the information effectively in their training?”

The feedback from the workshop also helped the Forum in developing its Phase Three work program. (See the article on Phase Three.)

The *Training Resources* is clearly an important reference point for IoDs

—and particularly novice trainers. The practical applicability of the adult-learning theory provides a major contribution to IoDs and other organizations wishing to market new approaches and skills that help build boards’ capacity to follow corporate governance principles.

Training Resources—Benefits and Challenges

Benefits

- More dynamic training
- Methodology more suitable to adult learners
- Logical flow of content helps trainers organize their curricula
- Point of reference for developing core and continuing education programs
- Modules’ flexibility affords adaptation to local situations and trainers’ existing curricula

Challenges

- Trainers already had developed their own material to reflect local “realities”
- The average number of participants in some programs is too high to use adult-learning approaches
- The materials need to be constantly updated to reflect news events, recent case studies, and the latest thinking

‘Retraining the Trainers’ for Greater Success

The Forum helps refresh the skills and knowledge of trainers who have been in the field for a year or more. One example is the “Refresher Leadership Program for Training of Trainers,” which was held in March in Zambia, under the guidance of the Institute of Directors Zambia (IoDZ).

This three-day program enabled the participating trainers to “take advantage of new knowledge and new ideas,” said Ghita Alderman, the Forum’s project leader for the *Training Resources* and Sub-Saharan Africa.

The trainers looked at what has worked and what hasn’t since the initial TOT in their country more than 18 months ago. They also identified expectations, reviewed the Zambian TOT materials, utilized adult-learning techniques, applied the Malawian module on business ethics to the training course design, and considered “lessons learned.”

The IoDZ has trained nearly 200 persons since it began using the Forum’s product in January 2009. Participating organizations include the Zambia Information and Communications Technology Authority, the Zambia Telecommunications (ZAMTEL), and the Zambia Consolidated Copper Mines

Investment Holdings. In addition, courses have been given to civic leaders, non governmental organizations, and state-owned enterprises.

The participants identified several professional challenges, including how to entice government officials to attend corporate governance training, and how to help journalists learn more about, and report on, corporate governance issues.

The workshop culminated with participants agreeing to the following actions:

- Introduce a short course to earn a corporate governance certificate at the Zambia Insurance Business College Trust
- Develop more courses for state-owned enterprises
- Take part in presentations on shareowner and stakeholder engagement as well as corporate social responsibility with financial institutions supervised by Zambia’s central bank
- Deliver a rollout strategy with courses for permanent secretaries, members of parliament, and civic leaders.
- Use the *Training Resources* as a reference point for developing codes for companies.

Forum Media Training Educates Journalists

In its third year, the Forum's media training program builds the skills and deepens the knowledge of journalists to enable them to do a better job of covering corporate governance. Journalists also hone their investigative skills on corporate governance issues to strengthen their roles as whistleblowers. Their work helps broaden awareness of the value of corporate governance and sheds light on a company's financial condition and board decisions.

Covering Corporate Governance Issues

In his presentations at the training session, Roger Jeal of the Thomson Reuters Foundation outlined the role journalists can play in covering issues related to corporate governance.

- Represent the readers, listeners, viewers when they cannot be present. Pay attention for warning signs when they do not
- Shine a light in dark places—investigate
- Expose problems, fraud, corruption, negligence, incompetence and abuse of power
- Act as independent watchdogs that bite as well as bark, especially where regulation and the legal system are insufficient or imperfect
- Challenge business people, politicians, regulators, and absolutely anyone involved; check comments, and claims
- Ask various stakeholders for evidence to support their views, and try to balance and contrast differing opinions
- Analyze (with help from sources who add authority and give audiences more confidence)
- Explain, give background, inform and educate

Since this program's founding, some 220 selected journalists have been trained in various regions.

This highly successful initiative demonstrates how the Forum uses partnerships with prominent organizations to leverage its resources and broaden its impact. In this case, the Thomson Reuters Foundation and Agence France Presse (AFP) are the Forum's partners. Their involvement also enhances credibility.

Thomson Reuters and AFP recruit journalists, who offer their profession's frontline perspective on the challenges of covering and analyzing corporate governance issues from local and international vantage points. The Forum provides trainers with an expertise in adult-learning techniques to maximize participants' learning experiences.

The sessions typically include:

- Views on corporate governance from industry leaders, capital markets professionals, regulators, and foreign institutional investors

- Coaching to develop essential skills and knowledge tailored to financial reporting
- Showing the participants how to sell corporate governance stories to editors—why such stories constitute “news” and interest readers and listeners
- Lessons from investigative journalists using case studies

“Corporate governance has great stories, waiting to be told,” said Jon Lukomnik, a principal at Sinclair Capital who is a guest lecturer on investigative business reporting. “Sometimes, the people involved don't want those stories told. They hide behind statistics and complexity. Your job is not to create great stories, just to unveil the ones that are there. Hiding. Waiting.”

This year, workshops have been held in Chile, Brazil, Vietnam, Jordan, and Bangladesh. The number of media training workshops has increased in 2010, and the program is expected to grow further with the continuing involvement of the partners. Participation may be broadened, too, to include editors and owners of news organizations.

FACEBOOK

The Facebook-based “Virtual Press Club” promotes conversation and networking among journalists interested in corporate governance reporting. Participants use the Club to “meet” peers in their own countries and worldwide, and to connect with corporate governance experts, including the broader Forum community (for example, PSAG). The Club also provides a channel for members to offer suggestions for the Forum's *Corporate Governance Media Toolkit*.

The Forum publishes a periodic newsletter, *Reporting on Corporate Governance*, which focuses on program updates, corporate governance articles, and related news.

MEDIA TRAINING WORKSHOPS

January 26–27

Latin America regional workshop, Chile

January 29

Brazil

March 16–18 and May 8

Malawi

March 31 –

April 2

Vietnam

May 3–4

MENA regional workshop, Jordan

May 30 – June 1

Bangladesh

Eugene Spiro, the Forum's senior projects officer for the Asia Region, said, "Print media dominate but there is a blend in most countries that includes radio, television, and online reporters. There is also a mix of experience from junior-level to senior-level practitioners. We want to make the program appropriate for almost any audience of journalists and other communicators who have an interest in the subject."

"Most important at this juncture," he added, "is to continue building skills and raising awareness of corporate governance at the editorial level." He said considerable fine tuning has been done over the past year to make the individual programs "more adaptable to the needs and interests of journalists working in different environments."

"The reputation of good corporate governance practices attracts more investments to a country," said Abul Kalam Azad, Bangladesh's Information Minister, at the journalists training event in Dhaka. (See article about the program in Bangladesh.) "Business journalists can help investors with information at home and abroad to make investment decisions."

The media training program will be packaged as a Forum toolkit. For journalists, it will provide background on such corporate governance topics as shareholder engagement and pension funds, and include case studies from different regions on investigative journalism and other subjects. For trainers, the publication will include sample curricula, tips and tactics for adult-learning approaches, lessons learned, and training discussion pointers.

Latin America Region Workshop

"The workshop has taught me that corporate governance is wider than I thought. It's is about the way people act: using leadership, diligence, acting transparently and efficiently, among other qualities, to build better companies."

Cristina Sevillano del Aguila
Workshop participant
Stakeholders Magazine (Peru)



Vietnam Workshop

"This is an excellent initiative to help journalists improve their knowledge of corporate governance issues. It provides them with the tools they need to do their jobs better."

"Reporters are not well-trained in covering financial issues, and often have to teach themselves. Nor is the market very transparent in making information accessible. But now there is a new awareness in Vietnam of the importance of increased transparency to be able to attract foreign investment."

"Once the journalists understand corporate governance issues, they will be able to identify better stories and provide wider coverage."

Nguyen Van Phu
Managing Editor, Saigon Times



Middle East and North Africa Workshop

"The workshop was a good mix of the theoretical and the practical. It taught us how to ask questions on corporate governance. Before, I thought that CG was bad for companies or at least provided limitations without much benefit. But now I learned how beneficial CG is to companies."

Hala Al Hadidi
PETRA



Latin American Institutes of Corporate Governance Share Ideas, Discuss Future Of Local/Regional Efforts

As Institutes of Corporate Governance within Latin America grow in number and influence, opportunities to meet regionally to exchange experiences and expertise are more important.

In Panama City, representatives from eight national institutes, and three other countries as observers, met in May to discuss issues affecting the management and sustainability of the institutes and the Forum's support to the Latin America network initiative, which was launched at the OECD, IFC, Forum 2009 Latin American Roundtable in Chile. The meeting was sponsored by the Forum and hosted by Panama's Institute of Corporate Governance (IGC-Panama).

"The Forum has made a great effort in getting 11 Latin American countries together for two days of discussion. Thank you for contributing to the Corporate Governance Institutes by allowing them to share successful experiences in each country."

María Elena de la Fuente Tovar
Manager
Centro de Excelencia de
Gobierno Corporativo (México)

Presentations centered on key topics in institutions' sustainability:

- **Sustainable income sources for institutes** (presented by IGC-Panama, CEGC/Mexico, and IBGC/Brazil)
- **Access to closed companies and corporate governance** (presented by CGCyDM/Chile, CEGC, and Confecamaras/Colombia)
- **Future of corporate governance in Latin America** (moderated by IGC/Costa Rica)
- **Challenges presenting new products** (presented by IBGC, IGC, IAGO, and CGCyDM/Chile)

- **Next steps** (presented by the Forum and OECD)

Discussion throughout the meeting focused on operational and philosophical topics, with strong interest in how to strengthen the work of the institutes and partner organizations under the Forum's guidance. Participants' recommendations included:

- Creating an inventory of potential synergies
- Presenting joint projects for funding by international organizations
- Building a database on the most effective event speakers
- Developing collaborative products
- Archiving practical case studies

"There was considerable discussion about regional and national differences," said Santiago Chaher, the Forum's senior consultant for the region. "Some countries have institutes with a high level of development while others are just starting to build them, so each experience counts as the new institutions are learning from experience and the developed ones are learning new ideas."

The Forum and OECD also asked some institutes to offer recommendations on priorities in each of their countries for improvements to boards on both a policy-making and a practical level. These recommendations will be discussed at the next OECD/IFC/Forum Roundtable in Brazil.

Participants agreed that private corporate governance initiatives are more productive, although in several countries, government regulatory agencies are often innovators because they see the value of corporate governance reform. In other countries, the authorities support reform but do not provide funding or resources for institute and partner projects. Instead, funding comes from sponsors and multilateral agencies.

Participants also saw a great need for training company and government leaders to understand more about corporate governance and how it can be effected cooperatively by private and public interests. E-learning was viewed as an important delivery mechanism that allows for greater numbers of organizations and individuals to take part, but always taking into account that the person-to-person exchanges are important in business.

Also, corporate governance call centers are needed where companies can ask for advice and counsel as well as information and training.

Another solution is collaboration with universities so that future generations of graduates, especially those in business, can be introduced to the impact of sound corporate governance in creating jobs, strengthening economies, and making better societies.

The Future of Corporate Governance

Companies cannot continue to rely on bank financing, according to the discussion. Brazil and Mexico, for example, have had to go to the stock market. Having good practices in place has managed to influence all companies. The private sector had to lead in making transparency a reality, according to one participant, Roberto Truque, president of the Costa Rican Institute (IGC-CR).

Alvaro Clarke, director of the Chilean Institute (CGCyDM), said that Chile is demanding transparency in the management of public companies, independent directors, and increased social contribution. Progress in corporate governance helps bridge the distance with the financial sector.

The trend is away from self-regulation, some participants said, but for most it is the only viable mechanism to make businesses sustainable over time.

Next Steps

Participants were interested in the future of their respective and collective enterprises and how they can partner with the Forum.

There was agreement that the Forum needs to take the lead on behalf of the institutes, with continued development and dissemination of its toolkits, newsletters, commentaries, reports, and other products in Spanish, Portuguese, and other languages.

Bottom line: The institutes feel strongly that without the Forum's involvement they will be unable to accomplish as much as they would like with regard to their goals and missions.

"The Forum's leadership is essential for the institutes' integration by merging their interests and objectives and aligning their missions," said Adriane Almeida, Head of IBGC's Knowledge Center.



Discussion throughout the meeting focused on strengthening the institutes' work and developing partnerships.

Perspectives on Forum's Value

"This initiative is fundamental to develop corporate governance in the region. It will permit us to accelerate and homogenize its implementation."

Oscar Rivas
General Manager
Fundación Bursátil (El Salvador)

"It has been very interesting to be able to share all the challenges and experiences of the institutes. The core idea—that all of us are trying to keep good corporate governance as a voluntary practice—is the one that motivates us to learn and compare with what others have already invented."

Julieta Rodríguez Molina
Director
Instituto de Gobierno Corporativo (Panamá)

"This initiative is very important to develop corporate governance in a systematic and strategic way in the region."

Francisco Javier Prada
General Manager, Confecámaras (Colombia)

"This initiative allows the Institutes to share common needs and to satisfy them by benefitting from diverse points of view and realities."

Gerardo Gonzales
General Manager
Procapitales (Peru)

Peter Dey Honored for Lifetime Achievements

The London-based International Corporate Governance Network honored PSAG Chairman Peter Dey with its Lifetime Achiever Award at its three-day summit in Toronto in June.

Dey was recognized for his role in developing governance guidelines in 1994 for companies on the Toronto Stock Exchange, and later helping develop global governance guidelines for the OECD and working with the Forum as PSAG's chairman.

During his remarks in accepting the award, Dey raised concerns about the "trend for shareholders to try to involve themselves in issues which, under our corporate model, should be within the purview of the board. To perform that job properly, you really have to understand the corporate strategy, and then you have to understand what



incentives you should include in your compensation system to make sure that strategy is achieved. For a shareholder, that's an impossible thing to do."

Yale Honors Forum's Santiago Chaher As 'Rising Star'

The Millstein Center for Corporate Governance and Performance at the Yale School of Management awarded Santiago Chaher, the Forum's senior consultant for the Latin American region, the "Rising Star of Corporate Governance Award."



This award recognizes global corporate governance professionals under the age of 40 who are making their mark as outstanding analysts, experts, activists, or managers.

"It is a privilege for the center to honor young and upcoming professionals in corporate governance through this Rising Stars award," said Ira M. Millstein, Senior Associate Dean for Corporate Governance at the Yale School of Management.

"Their work is even more meaningful this year given the financial crisis, corporate governance failures, and need for reform. We are hoping to foster a Rising Stars Network of Excellence going forward."

Chaher led several programs including training institutes that, in turn, help board directors build their expertise in corporate governance. (See the article on the regional cooperation in Latin America.)

"This award is a reflection of the dedication and commitment of all that I work with in Latin America," said Chaher. "Working with the Forum has been an extraordinary opportunity to see the region learn about and adopt corporate governance. New centers are opening while those that were pioneers, such as Brazil, continue to grow in stature in the region and beyond."

Miguel Marques to Head Forum's Steering Committee



Miguel Marques (pictured on the right) assumed the chairmanship of the Forum's Steering Committee in June at the annual review and planning session.

Marques, a Luxembourg national, is a senior advisor with the Luxembourg Ministry of Finance. He is also the Alternate 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.

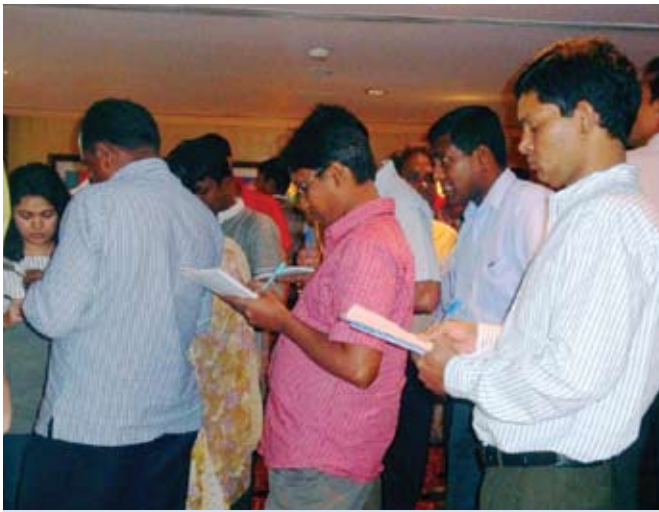
Thierry D. Buchs (pictured on the left) served as chairman of the Steering Committee for three years. Buchs was Head of Division for Private Sector Development within Switzerland's State Secretariat for Economic Affairs.

"Thierry's stewardship during a period of rapid growth for the Forum was greatly appreciated," said Philip Armstrong, the Forum's Head. "His commitment was tremendous in many ways, from the extensive guidance and counsel he provided to rendering firm leadership at critical moments. The Forum would not have progressed as far as we have so quickly without Thierry's support."

"We are also appreciative of Miguel's acceptance of the chairmanship. During his tenure on the Steering Committee, Miguel's role has been distinguished by a deep conviction for advancing corporate governance to support sustainable economic development. As the Forum embarks on Phase Three, Miguel's knowledge and ability to forge consensus among the Forum's donor countries will be invaluable."

Bangladesh: Report Launches Plan to Guide Corporate Governance Reforms

In partnership with the World Bank, IFC Advisory Services, and the Bangladesh Enterprise Institute (BEI), and with the Netherlands government's support, the Forum launched the World Bank's Bangladesh Corporate Governance Report on the Observance of Standards and Codes (ROSC) in Dhaka on May 29. At the event, the government announced its support for the report's recommendations to improve the country's corporate governance framework and practices.



Journalists taking notes during the media training program in Bangladesh.

More than 100 persons participated, including company board members and executives, government officials, the media, and staff from the Forum, the World Bank, and IFC. The special guests were A.M.A. Muhit, Bangladesh's finance minister, and Dr. Atiur Rahman, the Bangladesh Bank governor. Both supported the report and emphasized the need to proceed with the report's recommendations for developing Bangladesh's capital markets, attracting foreign investment, and securing sustainable economic growth.

Opening remarks were given by Farooq Sobhan, BEI President and PSAG member; Alphons Hennekens, ambassador to the Netherlands Embassy; and, Ellen Goldstein, World Bank country director.

David Robinett, the report's principal author, presented the findings. A panel discussion followed with Dr. Mirza A. Islam, a former government adviser; Shakil Rizvi, Dhaka Stock Exchange president; and, Jamaluddin Ahmed, president of the Institute of Chartered Accountants of Bangladesh. The corporate governance of state-owned enterprises was highlighted as an area of high concern.

Eugene Spiro, a Forum senior projects officer, and Martin Steindl, an IFC corporate

governance officer, outlined their respective programs in response to the report's recommendations, particularly for training board directors and the media.

Press coverage of the event was extensive, with online, print, radio, and television coverage.

The launch marked a valuable example of close coordination among the Forum, IFC, and the World Bank, to be followed by project design and implementation with input and delivery by the three groups.

Daily Star, June 2, 2010

Listed Companies Now Better Governed Says CEO of Dhaka Stock Exchange

Listed companies are gradually implementing corporate governance directives set by the Securities and Exchange Commission (SEC), an official said yesterday.

As many as 91 percent of listed companies are following the SEC directives for the size of the boards of directors, independent directors and audit committees, and annual general meetings, said Satipati Moitra, chief executive officer of Dhaka Stock Exchange (DSE).

The directives are meant to ensure transparency in companies' internal operation.

The DSE has conducted a survey of 104 out of 241 listed companies, where it found that most have complied with the regulations, he said.

In a keynote paper, Moitra said that 88 percent of the surveyed companies have complied with the regulations on the size of boards of directors.

The number of directors for a listed company should not be less than five and not more than 20.

Most companies follow the regulations on appointing independent directors and audit committees, organizing annual general meetings regularly, Moitra said.

Thought Leadership

All Forum publications are available on the Forum's website: www.gcgf.org.

Corporate Governance Board Leadership Training Resources User Review Workshop Proceedings

The workshop gathered IoDs with the international faculty and Forum staff to assess the effectiveness of the global roll-out strategy of the *Training Resources*. Participants shared their challenges, successes, and “lessons learned.”

OECD Policy Brief on Improving Corporate Governance of Banks in the Middle East and North Africa

Supported by the Forum, Hawkamah Institute, and the Union of Arab banks, this publication provides targeted recommendations to policymakers, banking supervisors, banking associations, and individual banks in the MENA region.

End-of-Phase Two Evaluation of the Global Corporate Governance Forum

This evaluation shows that the Forum is a “high-performing, relevant, and impactful organization despite its modest size and resourcing. However, in the face of a rapidly growing, worldwide demand for the Forum's services, the Forum does face a number of challenges to sustain its current levels of effectiveness and efficiency given its prevailing levels of funding and capacity. The evaluation notes that initial steps have been taken to address these challenges.”

Corporate Governance in Asia, Insights by Philip Armstrong

The Forum's Head shares his opinions on patterns, challenges, and progress of corporate governance in Asia in the context of the financial crisis, and how the Forum is addressing these challenges.

Private Sector Opinion, Issue 17: 'A Corporate Governance Model: Building Responsible Boards and Sustainable Businesses'

The publication introduces Dr. Yilmaz Arguden's “CRAFTED” principles of corporate governance, which help create value and trust for business sustainability.

AHEAD

In fiscal 2011, *Lessons Learned* editions will examine the reasons why some country action plans succeed and others fail, report on the introduction of the new Forum toolkit *Resolving Corporate Governance Disputes*, and share the experiences in using the *Governing Banks* training module from the Forum's Financial Markets Recovery Project.

Lessons Learned

JUNE 2010

Institutes Share Successes and Challenges in Training Board Directors to Lead Corporate Governance Reforms

Since its launch, more than 300 trainers from 55 countries have completed the Forum's “train the trainer” program. Their experiences are summarized in this *Lessons Learned* to assist IoDs and others in comprehending and applying the core success factors and in overcoming the challenges. Other “lessons” are derived from the meeting of master trainers in São Paulo in late February 2010 and IBGC's experiences.

MAY 2010

Forum to Expand Global Leadership in New Phase of Initiatives

The report, *End-of-Phase Evaluation of the Global Corporate Governance Forum*, provides insights into what the Forum itself has learned as it worked to raise awareness, build consensus, disseminate best practices,

sponsor research, and support technical assistance and capacity building.

FEBRUARY 2010

Improving Banks' Corporate Governance Practices in South East Europe

The financial crisis has severely affected the economic growth in Southeast Europe. Shortcomings in bank corporate governance can destabilize the financial system and create systemic risks to the economy. To promote a sustainable regional recovery, the Forum, EBRD, and IFC are working together to help financial institutions and regulators adopt best practices for conducting business.

DECEMBER 2009

Thomson Reuters Foundation and Forum Train Journalists to Report on Corporate Governance Issues

The partners jointly developed and now run a unique program to help journalists

strengthen their reporting about issues related to corporate governance. The article discusses the Forum's experience in running the program and maintaining a global network of journalists to provide them continual support after the training workshops.

IFC SmartLessons: 'Learn Before You Lead: The Corporate Governance Board Leadership Training Resources Kit'

This publication tells how the Forum created an interactive and flexible toolkit for adult learners on the subject of board leadership training. It also explores what the Forum and IoDs learned as they applied the *Training Resources* in their director training programs.

Anti-Corruption Issues in Africa

By Philip Armstrong

Head, Global Corporate Governance Forum

This article is an excerpt from Armstrong's remarks before an April conference of the University of Stellenbosch's Unit for Corporate Governance in Africa in Cape Town, South Africa.

Corruption has debilitating consequences worldwide, especially in the fight against poverty and for social and economic justice.

It creates inefficient economies, curtails competition, increases business costs, weakens public policy, destabilizes government, compromises human freedom, threatens democracy, and demoralizes individual citizens.

At the corporate level, corruption corrodes the quality of management at all levels, and undermines the value and benefits of free enterprise.

Corruption in Africa costs the continent \$140 billion annually, according to African Union estimates, or about 25 percent of the total gross domestic product in Sub-Saharan Africa.

According to Transparency International's Corruption Perceptions Index (CPI), which measures perceived levels of public sector corruption in 180 countries and territories, corruption is pervasive throughout most of Africa.

Of the 47 countries reviewed in Sub-Saharan Africa, 31 scored less than 3 out of a possible 10, indicating that corruption is perceived as rampant by country experts and businessmen, while 13 scored between 3 and 5, indicating that corruption is perceived as a serious challenge. Only three countries scored more than 5: Botswana, Mauritius, and Cape Verde.

Because of corruption, the African continent pays a heavy opportunity cost in trying to build and sustain national and regional economic health.

What can be done about corruption?

Fighting corruption requires strong public and private regulatory bodies. A country's

legal and regulatory framework sets the minimum standards for acceptable conduct in doing business. The framework also reflects what society holds as fair and appropriate behavior by all types and sizes of businesses.



However, in most developing countries legislation and enforcement are not easy tasks. Enforcement alone requires lengthy and costly procedures, technical skills, infrastructure, and mechanisms that are often lacking in developing countries. Even in the best of circumstances, there are many more priorities such as health, sanitation, food, water,

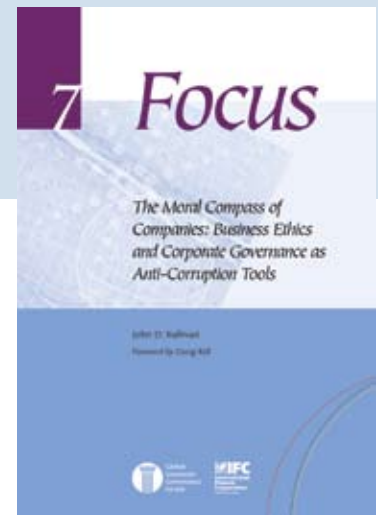
and education that take precedence. Regulatory enforcement, in particular, falls low in the order of immediate concerns.

Not surprisingly, corrupt governments wholeheartedly oppose reforms that reduce their opportunities for enrichment.

Corporate governance is growing in importance not only as a tool that increases business efficiency, improves access to capital, and ensures sustainability, but as a tool that supports and encourages implementation of effective anti-corruption programs and strategies.

Evidence indicates that reforms perceived as an attack on power holders will not be implemented or enforced, and even if they are they will be manipulated by those in power to serve their narrow interests.

Effective reform, therefore, requires an understanding of its impact on key players, including domestic governments, before it



To learn more about this topic, see *The Moral Compass of Companies: Business Ethics and Corporate Governance as Anti-Corruption Tools*. Focus 7. John D. Sullivan, Executive Director of the Center for International Private Enterprise, is the author.

What is Corruption?

As the OECD defines it: "Corruption comes in many guises. Bribery, extortion, fraud, trafficking, embezzlement—but also nepotism and cronyism—are all different manifestations of it. Even the most straight-forward acts of bribery need not always involve the exchange of money. Other gifts or advantages, such as membership of an exclusive club or promises of scholarships for children, have been used as 'sweeteners' to clinch deals. Whatever form it takes, corruption is always a two-way transaction; it requires a supply side (the briber) and a demand side (the one who receives the bribe)."

is put in place. This understanding permits identification of processes and procedures that entail governmental as well as social benefits while allowing for more judicious compromise that protects all parties.

In instances where the powers that be view reforms as not in their interest, the aim should be to find ways that make the reforms feasible by reducing the incentives of those in power to govern or manage things for their private gain and against the public good.

General guidelines for more ethical

behavior include a number of different sources for anti-corruption initiatives. Even though all are noble efforts, most of them are fragmented and therefore not helpful. There needs to be a more unified approach that satisfies the differences among different markets.

Fortunately, more and more countries are requiring corporate governance codes as a condition of doing business, and a means to widening the regulatory standards for voluntary, self-regulating codes of conduct that exceed the minimum prescribed requirements of law.

Shareholders and investors also have a key role in making productive change.

Most important, they should confront bribery and corruption through open and constructive engagement with company managements.

Recognizing the importance of investors in this regard, the International Corporate Governance Network—composed mostly of institutional investors who collectively represent funds under management of about \$9.5 trillion—recently issued a statement urging investors to become more active in monitoring company anti-corruption mechanisms.

“Corruption is a formidable enemy of good corporate governance, but it is not invincible despite how often it rears its ugly head.”

This idea of intervention is being taken a step further by the UN Principles for Responsible Investment (UNPRI) initiative, a partnership between active investors, the UN Environment Programme Finance Initiative, and the UN Global Compact.

As the UNPRI Secretariat website explains, “it is coordinating the adoption of the principles by institutional investors, providing comprehensive resources to assist investors in implementing the principles, and facilitating collaboration among signatories.”

And in partnership with the Center for International Private Enterprise (CIPE), the Forum has produced a guide to

anti-corruption measures based on our respective experiences. Titled *The Moral Compass of Companies: Business Ethics and Corporate Governance as Anti-Corruption Tools* (Focus 7), the guide was preceded by a paper in our *Private Sector Opinion* series, *Corruption, Economic Development and Governance: Private Sector Perspectives from Developing Countries*.

The Forum has also partnered with The Global Compact to publish *Corporate Governance: The Foundation for Corporate Citizenship and Sustainable Business*, and it is taking part in the Principle #10 Working Group to clarify and strengthen anti-corruption guidelines globally.

Lastly, the Forum is engaged with the World Bank’s *Reports on the Observance of Standards and Codes* (ROSC) team on initiatives for improving the corporate governance regulatory framework in countries engaged in building institutional capacity and improving the quality of board training and leadership skills.

Clearly, corruption is a formidable enemy of good corporate governance, but it is not invincible despite how often it rears its ugly head. Much is being done to fight it in all its forms. And much more can be done, especially in emerging markets where the need for preventive action is urgent and the gains that can be achieved are greatest.

