

A PROGRESS REPORT

OUR MISSION:

Established in 1999, the Global Corporate Governance Forum is an IFC multi-donor trust fund facility located within IFC Advisory Services. 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
- Switzerland
- International Finance Corporation

OUR FOUNDERS:

- World Bank
- Organization for Economic Cooperation and Development



Participants at the Forum-supported workshop in October in Maputo, Mozambique. The program focused on "Probity and Integrity in the Dawn of the Millennium."

Global Corporate Governance Forum

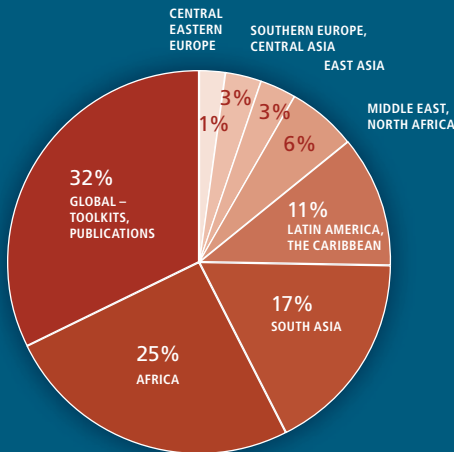
Better Companies, Better Societies

Steering Committee member Aude Flogny-Catrisse stresses the importance of corporate governance as a response to the global financial turmoil. ■ An independent evaluation gave the Forum high marks for its accomplishments and impact. ■ Global roll-out of board leadership training initiative accelerated, with regional programs held in Bangladesh, Brazil, India, Indonesia, South Africa, the United Arab Emirates, and Zambia. ■ A workshop in China advised local government and enterprise leaders on the importance of corporate governance for long-term sustainability. ■ The Forum organized a "study tour" in Washington, D.C. for Brazil's Institute of Corporate Governance. ■ A knowledge management workshop focused on code development and implementation, attracting participants from 16 countries. ■ Another Forum workshop examined how to prevent fraud and strengthen enforcement of laws to protect investors. ■ *Directorship* magazine honors Philip A. Armstrong for his influence on corporate governance. ■ The Thomson Reuters Foundation is partnering with the Forum to teach journalists about corporate governance; through the journalists' reporting, they help broaden public awareness and hold boards accountable. ■ Private Sector Advisory Group Chairman Peter J. Dey outlines what boards should do now in response to the unprecedented financial market conditions. ■ PSAG member Patrick Chisanga explains why the advancement of corporate governance best practices is key to Africa's development. ■ In a forthcoming *Focus* publication, John D. Sullivan discusses how to develop a strong culture of ethical business conduct to guard against corruption. ■ Simon Osborne examines how boards can evaluate their performance while Simon Wong shares his extensive experience in developing and implementing corporate governance codes in *Private Sector Opinion* publications. ■ Forum initiatives include development of a toolkit on *Preventing and Solving Corporate Governance Disputes*.

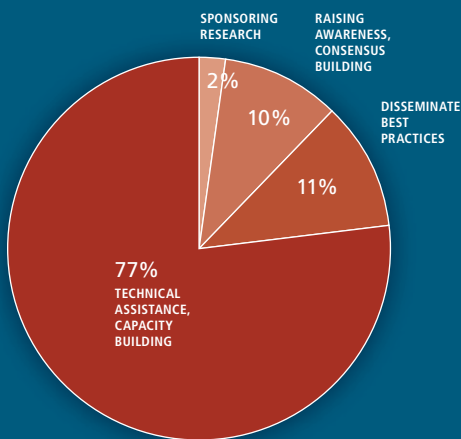
Financial Crisis Illustrates Dangers of Inaction on Corporate Governance

FINANCIAL SUMMARY

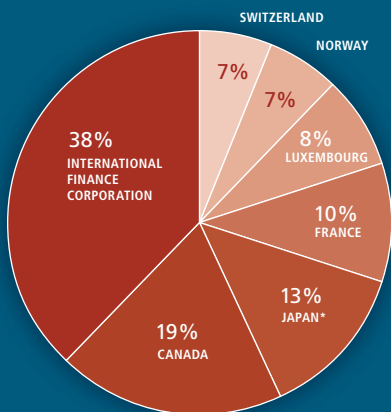
Funds Allocated by Region



Funds Allocated by Activity



Sources of Funds



*FUNDING SPECIFICALLY DIRECTED TO THE FORUM'S WORK IN INDIA



Forum Steering Committee Member Aude Flogny-Catrisse is Head of the Financial Sector and Private Sector Development Division at the Agence Française de Développement (AFD) in Paris. AFD is the main source of French bilateral development aid, operating in 60-plus countries with more than Euro 3.3 billion in commitments. Ms. Flogny-Catrisse has extensive experience in the banking sector of emerging market countries, particularly in corporate and small-to-medium enterprise (SME) finance. Prior to her current position, Ms. Flogny-Catrisse was a

Senior Banking Specialist in the IFC Global Financial Markets Department. From 1991 to 2002, she worked at PROPARCO, the AFD's private sector arm, in Paris and Johannesburg, heading the Banking and Financial Markets Service. From 1984 to 1991, she held various positions at Banque Paribas and consulting firms, working in their corporate finance and mergers and acquisitions divisions. Ms. Flogny-Catrisse holds degrees from the ESSEC Business School in France and the Institut d'Etudes Politiques de Bordeaux.

Given the failures we've seen in financial institutions worldwide over the past year, what does this say about corporate governance and its impact?

These failings of global investment and traditional banks underscore even more the need of board directors to abide by the letter and the spirit of best practices. What we've seen are examples where the directors did not act according to three key principles that help boards manage risks while advancing their companies' goals: the duty of care, the duty of loyalty, and the business judgment rule. Had they been more vigilant and diligent in their roles, the activities that gave rise to the banks' ultimate demise could have been prevented. We should not see these examples as failures of corporate governance but rather as failures of these institutions' leaders in abdicating their responsibilities of representing shareholders' interests. For companies that have not embraced strong corporate governance policies and practices, the past year is a warning of the dangers of their inactions.

As you look at the Forum's work, what projects particularly impressed you?

The Forum is particularly adept at finding the right approaches that match the business and cultural environment in which they work, using their network of private sector business leaders. They help foster ownership of corporate governance and deliver programs in the business language of the countries they

support, such as west and north Africa. They are also successful in reaching out to and collaborating with other like-minded organizations, such as the European Development Institutions and AFD. These strengths are noted in the independent evaluation of the Forum. (To learn more about the evaluation, see the article on the opposite page.)

The Forum's effort to improve how boards resolve conflicts among their directors is another area to note. Not much has been done generally in advancing the use of alternative dispute resolution (ADR) mechanisms, so the Forum's contributions here will be invaluable. After publishing an analysis as part of the *Focus* series, the Forum began work on an ADR toolkit, which will help boards learn how they can implement a process to, first, minimize differences in opinion from escalating into disputes within the board or with shareholders and ultimately jeopardize a company's viability, and, second, to turn those disputes into an agreement without involving the judiciary. There are alternatives to the courts that have been proven to be effective in achieving settlements of disputes – mediation and arbitration. Boards worldwide, by and large, though, are not familiar with these approaches.

Throughout Africa, too, are examples of how the Forum is working to advance corporate governance in that region. In Mozambique, the Forum has been helping to launch and sustain an Institute of Directors. These institutes are key in

building capacity. In North Africa, we've seen several countries drafting and implementing codes following the Forum's leadership in that region. These efforts are particularly important, because if Africa is to grow and prosper, corporate governance is essential in helping to sustain development. Investors will seek out those opportunities where risks are minimized and prudently managed—where the companies are transparent, issue financial reports according to strict accounting rules, and act as responsible citizens in the communities in which they operate.

Are we seeing progress with corporate governance reforms in developing and emerging market countries? What are the reasons behind your conclusions?

A combination of events is leading to progress. One, of course, is globalization. That's led to increased competition and market consolidation. A few years ago, when we were knocking on the doors of some companies of the Soviet Union to discuss corporate governance, people were extremely suspicious. Things have changed a great deal since then. Banks and companies are knocking on the door of the IFC and other international organizations for help in improving their corporate governance standards. With ever-increasing global competition, businesses realize they must be open to capital from foreign investors.

That means they need to be listed on stock exchanges. Seven years ago, you had to do a lot of convincing. It was nice to have but not needed, a luxury good, not a necessity. Now, market conditions are very different. It's no longer a choice—companies must adhere to internationally acceptable corporate governance practices.

As you reflect on those countries and companies that have succeeded, what are the reasons for their success?

When companies publicly commit to improving their corporate governance standards, that commitment invites public scrutiny, which holds the company accountable. Hence, transparency is important. Further, as more companies adopt best practices, corporate governance becomes an issue of competitive advantage.

Independent Evaluation Shows Forum to be 'Efficient, Cost Effective, and Relevant'

In 2008, the Forum underwent a comprehensive mid-phase evaluation of its overall program and a selection of nine projects within three geographic regions (specifically, Sub-Saharan Africa, Central and Southeastern Europe, and Latin America and the Caribbean) from fiscal 2004 through fiscal 2007. This current evaluation followed an initial review of the Forum for the five prior fiscal years.

Program design, the Forum's structure, and resource mobilization were among the criteria examined to evaluate the Forum's operations and its achievement of targets and goals in line with its mandate and strategic direction. The evaluators assessed the Forum's cost effectiveness (leverage of resources, strategic direction), efficiency, governance, management, relevance, sustainability, and impact. The Canada-based firm considered quantitative and qualitative data, drawing on documentation and extensive interviews with 74 stakeholders.

The resulting information was intended to provide Forum donors with an assessment of the progress made in advancing good corporate governance practices, implementing recommendations from the prior evaluation, and guiding donors in determining the next steps, including funding decisions and institutional arrangements.

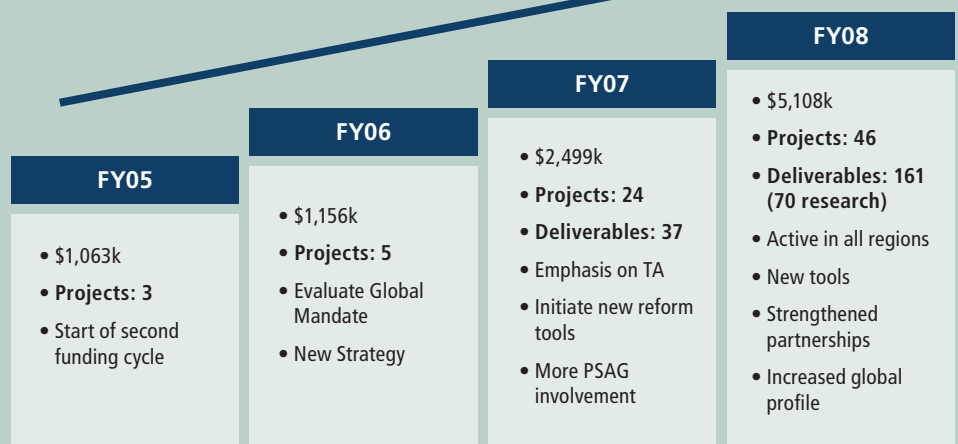
The evaluators found the Forum's FY04 – FY07 programming to be very efficient, cost-effective, adequately governed with superior management, clearly relevant, and both sustainable and having positive impact.

“Overall, the programming strategy was deemed to be very effective with the Forum achieving remarkable reach on a small budget,” the report said. “The Forum's strategy is characterized by advancing activities in regions where there is pressure for change and where the Forum can get the most leverage for its efforts. In most cases, the Forum was able to coordinate activities and support with other organizations, both international and local. The evaluation team and Forum stakeholders agreed that to remain effective and meet as much demand as possible, the Forum has to engage in further partnering. Leveraging arrangements offer the additional benefit of enhanced visibility and broader access to specialist and geographically localized networks.”

RECOMMENDATIONS

- Achieving sustainable, secure funding
- Clarifying the Steering Committee's responsibilities and expectations
- Addressing the need for additional staff resources for the Forum Secretariat

FORUM'S TRANSITION AND PROGRESS



Four-fold acceleration in program activity

Global Roll-Out of Board Leadership Training Resources

The global financial crisis has stimulated a spike in demand worldwide for the *Corporate Governance Board Leadership Training Resources* (Toolkit #3).

This Forum initiative seeks to enhance the quality of director training by training the trainers, who, in turn, teach board directors. Covering the full spectrum of a board's role and responsibilities, the broadly based curriculum emphasizes adult-learning methodologies using, for example, case studies and group tasks.

Since the *Board Leadership Training Resources* were published in summer 2008, the Forum has orchestrated regional roll-outs worldwide.

“The Forum is doing an excellent job in creating awareness, visibility, and acceptability for good governance practices as a tool for protecting and safeguarding the interests of all stakeholders of a corporate entity. It is actively engaged in pioneering work towards creating a knowledge pool of governance leaders for promoting good governance practices by organizing well-structured and focused training programs worldwide.”

N. K. JAIN, SECRETARY AND CEO, THE INSTITUTE OF COMPANY SECRETARIES OF INDIA

The roll-out is designed to:

- Enhance director training capacity
- Help participants become familiar with the *Board Leadership Training Resources* and assist them in learning how to use and adapt the material to address local issues and practices
- Develop the knowledge base and skill sets needed to lead director education programs that reflect international best practices but are adapted to regional trends and country-specific needs

Global dissemination began in Bangladesh. The Forum, together with the Bangladesh Enterprise Institute and the Commonwealth Secretariat, held a four-day training program for the South Asia region. Twenty participants from Bangladesh, Sri Lanka, India, the Maldives, and Pakistan attended the sessions.

“I valued the excellent way in which the emphasis for better communications skills was folded into the core corporate governance discussions by the experienced

trainers/presenters,” said Kalanie de Silva, Director of the Telecommunications Regulatory Commission in Sri Lanka. “What I learned will be very useful when addressing senior corporate executives.”

Following this, the Forum and IFC's Private Enterprise Partnership for the Middle East/North Africa (PEP-MENA) organized a four-day program in July targeted at professionals who train directors in that region. The Abu Dhabi Center for Corporate Governance and the Mudara Institute of Directors hosted the workshop, with the support of the Egyptian Institute of Directors and the Hawkamah Institute for Corporate Governance.

“The program provided me with different ways to deliver materials in informative, diverse ways to hold interest and appeal to different learning styles,” wrote one participant in the Abu Dhabi workshop. “The program provided me with a systematic framework to conduct training sessions,” another commented.

All of the materials have now been fully incorporated into the board development program run by IoD Mudara, and the new courses have already been run in Oman and the UAE by participants in the rollout. IoD Mudara is also developing an assessment framework based upon the *Board Leadership Training Resources*.

The Indonesian Institute of Corporate Directors worked with the Forum in organizing a regional training program that attracted 20 participants from China, Indonesia, Korea, the Philippines, Singapore, Taiwan, and Thailand. Participants praised the sessions and materials for their emphasis on “the practical” and their “user friendly” quality.

Leading directors, trainers, and regulators attended a three-day session in Mumbai in July 2008 and another in New Delhi in November 2008. Both sessions were generously financed by the Japanese government with support from the National Institute of Securities Markets, the IFC, and the Institute of Company Secretaries of India.

One participant said “the program challenges you to be innovative when making presentations.” Another said it

“was practical and hands on, giving me the opportunity for self evaluation.” A third commented that the program “opened my mind that adult learning is not just about standing and lecturing on a topic one is conversant with, but engaging your participants to share their experiences and expertise.”

In Krakow, the *Board Leadership Training Resources* was presented to IFC officers from seven countries, who will adapt the materials for use in their initiatives. The Krakow program included a session on the corporate governance issues emerging from the global financial crisis.

In Zambia, two “train the trainer” programs were run in November 2008 in association with that country's IoD.

“IoD Zambia and all the participants benefited tremendously from the program. The feedback from all participants is so overwhelmingly positive,” said Julu Simuule, Chairman, the National Road Fund Agency.

“The Forum is devoting considerable effort to processes that will regulate the roll-out and monitor its impact. This will ensure that the training's quality is not compromised but is sufficiently accessible to meet development objectives,” said Ghita Alderman, the Forum projects officer overseeing the *Board Leadership Training Resources* rollout.

USING BOARD LEADERSHIP TRAINING RESOURCES

To maximize the *Board Leadership Training Resources* impact on improving board directors' knowledge about and use of corporate governance best practices, the Forum established a special dissemination procedure. Organizations wishing to use the material must first undergo a “train the trainer” program. After successfully completing that training, they sign an agreement with the Forum to provide thorough reports about their use of the *Board Leadership Training Resources*, including assessments of their efforts' impact.

AHEAD

Regional roll-outs are planned for Brazil, the Caribbean, China, East Africa, and European Development Finance Institutions, including the Forum donor Agence Française de Développement (AFD).

Workshop Promotes Corporate Governance for Chinese Enterprises

In partnership with the United Nations Industrial Development Organization (UNIDO), the Forum held a workshop in October 2008 to advise representatives of Shenzhen's government and local enterprise leaders on the importance of corporate governance for long-term sustainability.

More than 100 participants attended the workshop, which included guest speakers Peter Dey, who, in addition to chairing PSAG, serves as Chairman of Paradigm Capital (Toronto) and is a member of the International Advisory Committee to the Chinese Securities Regulatory Commission (see his article on page nine); Simon Wong, Head of Corporate Governance at Barclays Global Investors (London); and, David Smith of RiskMetrics Group (Singapore), as well as managers from NASDAQ Asia Region and local investment firms.

The event was supported by the Shenzhen Government, the Shenzhen Council for the Promotion of International Investment, NASDAQ Asia Region, GIC Special Investments, IMB Great China Capital, and China Topfo Investment Ltd.

"This was the Forum's first initiative to promote corporate governance in China.

By helping to advise policy leaders who can structure appropriate regulatory frameworks, and business leaders and enterprise managers who will implement corporate governance best practices, we can advance corporate governance reform in a better-informed and more receptive environment," Dey said.

The workshop is part of a Forum program, being implemented in partnership with UNIDO, to foster corporate governance reform among Chinese enterprises and industries at the local and regional levels. The program aims to help industrial clusters in major regional hubs in China move along the industrial value chain to an advanced position, and to introduce new industries to promote sustainable development of local economies.

AHEAD

The Forum is in discussion with UNIDO support. Plans are also underway to provide technical support to the IFC's corporate governance program in the country, starting with the *Board Leadership Training Resources* roll-out.



Global Proxy Watch Praises PSAG Deputy Chairman

PSAG Deputy Chairman Christian Strenger was named a star in 2008 by Global Proxy Watch for his "successful rescue of investors' rights" in Germany.

Directorship Magazine Honors Forum Head

Directorship magazine named Philip A. Armstrong, Head of the Forum, as one of the 100 most influential people on corporate government at the ninth annual recognition dinner in New York in December 2008. The *Directorship* Board of Advisors, the NASDAQ OMX Group, Inc., *Directorship*, and Global Proxy Watch sponsored the event.

Armstrong was cited as an internationally renowned expert on corporate governance, joining a prestigious list of honorees that included Ben Bernanke, Chairman of the Federal Reserve; Henry Paulson, former U.S. Treasury Secretary; Harvey Pitt, former Chairman of the Securities and Exchange Commission; Barney Frank, a U.S. Congressman; and, private industry titans Carl Icahn and Warren Buffet.



Forum Organizes ‘Study Tour’ for Brazil’s Institute of Corporate Governance

Thirty members of Brazil’s Institute of Corporate Governance (IBGC)—comprised of business leaders, regulators, investors, and prominent academics—spent three days in Washington in October 2008, participating in a Forum program that provided insights into key issues affecting financial markets and investors’ interests in emerging markets.

The economic crisis worldwide and its impact on emerging markets was the focus of a discussion led by Toshiya Masuoka, Director of the IFC’s Corporate Advice Department, and Matthew Orsagh, Senior Policy Analyst at the CFA Institute. Family-owned businesses and state-owned enterprises pose unique issues for corporate governance. Andrew Hier, Partner of Consulting with the Owner Managed Business Institute, and Alex Berg, Program Manager, Corporate Governance Policy Unit, Global Capital Markets Development Department of the World Bank, led separate discussions on these topics.

Pension funds, shareholder engagement, and investment strategies were covered by guest speakers who are closely affiliated with the Forum’s work and PSAG. These well-recognized international authorities on corporate governance included: Stephen Davis of the Yale School of Management’s

Millstein Center for Corporate Governance; Nell Minow, well-known shareholder activist, of The Corporate Library; and, John Wilcox, Chairman at Sodali Ltd. and formerly of the major U.S. pension fund TIAA-Cref. IBGC participants personally covered their travel costs.

“With this kind of engagement, the Forum has set up an efficient model to facilitate institutional capacity-building on corporate governance, providing unique access to our influential networks of advisors and experts. The Forum has conducted similar engagements elsewhere, including one in

India earlier in 2008. These efforts form part of our overall strategy to support corporate governance reform efforts with emerging markets and utilize international leaders on corporate governance in this process,” Armstrong said.

“Corporate governance is increasingly important for companies like the one my family owns. The Forum’s support for regional and local efforts, such as the IBGC’s work, has been very important.”

JULIANA NEVER OLIVIERA, PARTICIPANT



‘Walking the Talk’—The Reasons Why IBGC Succeeds

IBGC is generally regarded as a success story, having earned credit for setting high standards and positively influencing the market. Over the years, its progress as a credible, not-for-profit institution required that it carefully develop its own governance standards.

By understanding how IBGC managed its challenges and realized many of its opportunities, other institutes and nongovernmental organizations can find their own paths to success. For this purpose, the Forum published a *Lessons Learned* about the institute, which Leonardo Viegas wrote. Viegas is a member of several boards, a founding member of IBGC, and a PSAG member.

IBGC’s founding fathers wanted their institute to be a role model for corporate governance so they “walked the talk” immediately by adopting best practices from the start. Their credibility required transparency—the foundation of all corporate governance principles.

IBGC’s governance structure resembles that of large listed companies, with a nine-person board, an audit committee, and professional management. Board directors are elected by members at the annual general assembly. The positions of chairman and CEO are separate functions, and the chairman and two vice-chairmen are elected by their peers.

IBGC is essentially a volunteer-led organization. Board members, directors, regional chapter coordinators, and committee members work pro-bono; there are no perks.

“Investing time and effort at IBGC is a very rewarding experience,” said Mauro Cunha, Chairman of IBGC’s board. “It is one of the most productive uses of pro bono time for people involved in corporate governance, as the institute has a real impact in making Brazilian organizations better. Besides, the interaction with other professionals similarly interested in spreading the gospel of best practices provides a unique environment, unlike any other organization in our country.”

Building a Cadre of Corporate Governance Code Development Experts

Code development and implementation is challenging, involving many partners, obstacles, and steps toward completion.

To help satisfy clients' requests for technical assistance in developing their codes, the Forum organized its first knowledge management workshop on "Supporting the Development of Corporate Governance Codes of Best Practice" in Washington in September 2008.

This workshop provided representatives from IFC regional facilities, corporate governance consultants, the Forum's staff, and its partners with an opportunity to share and learn from each other's experiences while identifying areas for collaboration.

More than 30 persons from 16 countries participated. The diversity of experiences informed discussions to define common regional problems, develop solutions, and share good practices.

"The process of corporate governance code development is very important," said Stilpon Nestor, Principal, Nestor Advisors, Ltd. "The outcome is not only the code itself, but the process that educates, creates both awareness and ownership of the code, and inspires local champions for governance. The code drafting is not the ultimate goal. It is an important start."

AHEAD

The Forum is responding to requests for reviews of existing codes by its international peer review group and is currently assisting in the development of codes with Armenia, Algeria, Tunisia, the Union of Arab Banks, Bangladesh, Azerbaijan and Syria.

Smart Lessons From Middle East, North Africa

To help developing, emerging, and transition countries develop and implement corporate governance codes, the Global Corporate Governance Forum produced a Toolkit, *Developing Codes of Best Practice*. (This is available as a public good on the Forum's Website, www.gcgf.org.)

The product was widely disseminated, yet in some regions such as the Middle East and North Africa, very few countries had engaged in developing their own national codes. The Forum worked with PEP-MENA to hold workshops across the MENA region.

"The Rabat workshop gave us the opportunity to exchange various rewarding experiences which will certainly help, each of us, in raising corporate governance principles," said Meriem Bellil-Medjoubi, Secretary General of APAB. "I now have a clearer view on the next steps, and a specific action plan to implement at the Institute of Banking in Saudi Arabia," commented Hisham A. Yasin, Business Development Manager at the institute in Riyadh.

"The Corporate Governance Code Development program in the MENA region was conceived at the outset of a wave of interest in corporate governance reform in the region," said Rajeev Pillay, independent evaluation consultant and General Partner with Abacus International Management L.L.C. "It has been highly successful in accelerating the early stages of this reform process and has been implemented in a manner to support national initiatives and to encourage national ownership."

The effort resulted in 14 countries adopting codes by December 2008. The IFC published a "smart lessons" about the MENA experience to help others with the IFC replicate the Forum's success.

COUNSEL FOR DEVELOPING CORPORATE GOVERNANCE CODES

- No single type of organization is best suited to initiating or developing a corporate governance code. Virtually every possible combination (government will or private sector interest) has resulted in the adoption of quality codes. What is essential is that all interested parties be involved in the process and represented on the drafting committee.
- Only in a few cases has the government actually played a leading role in developing a corporate governance code, preferring to keep a low profile in favor of the private sector. Regardless of its level of involvement, the government is often perceived to be an essential source of support.
- Review the Forum's toolkit *Developing Codes of Best Practice* and integrate its suggestions throughout the code development process (setting up the task force; reviewing the rationale of codes; setting the objectives; drafting; consulting; launching; and, reviewing).
- Some of the task force's most influential members should be well represented on the drafting team along with a broad range of stakeholders.
- Consider the rationale and framework of code formulation prior to starting the code drafting process.
- Develop a master schedule, including an action plan and timeframe.

February 2009

corporate governance

better companies, better societies

LESSONS LEARNED SERIES

Global Corporate Governance Forum

The Global Corporate Governance Forum is an International Finance and Development (IFD) managed knowledge facility, directed and coordinated by the World Bank and the Organization for Economic Co-operation and Development (OECD) in 2005.

Through its activities, the Forum aims to promote the private sector as an engine of growth, reduce the vulnerability of developing and transition countries to financial crisis, and provide technical assistance to invest and perform efficiently in a globalized market. The Forum sponsors regional and global initiatives that address the corporate governance and business ethics of middle and low-income countries as well as broader national or regional economic reform programs.

Members of the Forum include the IFC and the Governments of Canada, France, Luxembourg, the Netherlands, Norway, and Switzerland.

IFC International Finance Corporation

Sharing Expertise on Developing Corporate Governance Codes

To increase the number of experts who can help countries develop and improve their corporate governance codes, the Forum organized a knowledge management workshop on "Supporting the Development of Corporate Governance Codes of Best Practice." This is the first of a series of such workshops the Forum will be organizing based on its toolkits and experience gained in the field worldwide. These workshops are targeted at IFC offices from around the world and the Forum's partners in capacity-building efforts for the developing and transition countries.

At the Forum's event in Washington D.C. on September 18-19, 2008, more than 30 persons from 16 countries participated. The diversity of experiences informed discussions to identify common regional problems, develop solutions, and share good practices.

"We are all facing the same kind of problems," observed one participant. "Exchanging experiences helps to clarify ideas and concepts. From this process, solutions emerged," another participant said.

During this two-day, highly interactive workshop, participants discussed why

"The workshop provided a highly valuable platform to learn the nuts and bolts of corporate governance codes and to exchange experiences with top-level practitioners on the design, implementation, and impact of codes. A key benefit was also the access to a wide range of Forum publications that serve as practical tools for companies."

Elena Sahli, Program Officer, Eastern Europe and Eurasia, Center for International Private Enterprise

corporate governance codes matter. Key milestones for the development process to succeed, the consultants' roles, lessons learned from South Africa and Egypt, and different enforcement mechanisms.

Participant shares experiences during a breakout session.

"Corporate governance codes work. They influence company behavior, often under pressure from investors and investment bankers. Prerequisites for a code's success include: clarity, ownership by institutions and individuals, and proper legal underpinnings. Codes must be tailored to entities. Further, they must be clear and sufficiently detailed so that companies can request contributions to the recommendations. Local codes must be linked to international norms or internationally recognized best practices—but adapted to local circumstances to ensure relevance. These pre-requisites do not necessarily exist in developing countries to the same extent that they do in developed countries."

Stilpon Nestor
Corporate Governance Advisor Principal, Nestor Advisors Ltd.

Improving Market Enforcement, Preventing Fraud in South East Europe

As capital markets in South East Europe (SEE) grow rapidly, supervisory authorities must be able to identify and then halt fraud, market manipulation, and insider trading. To address this challenge, the Forum—with the Toronto Centre, IFC's Private Enterprise Partnership for SEE, and the World Bank's Sofia office—jointly organized the first regional workshop for strengthening regulators' capacity to enforce laws and prevent fraud.

Experts who attended the five-day workshop covered such topics as: "Effective Preventions; Steps to Achieve Efficient Surveillance;" "Investigatory Powers and

Techniques to Press Market Manipulation Cases;" "The Response: Administrative vs. Criminal Proceedings;" "Action Planning: Identifying Enforcement Challenges, Defining Solutions;" and, "International Cooperation Central to Cross-Border Transactions' Success."

"It was very useful to learn about different approaches to common problems, see other points of view, and meet people confronting similar problems."

NEVENA NASTIC
BELGRADE STOCK EXCHANGE

Training Financial Journalists about Corporate Governance

The Forum and Thomson Reuters Foundation are cooperating in a program designed to strengthen journalists' reporting on issues related to corporate governance.

Based on the view that "better companies make better societies," the program's objective is to broaden dissemination of information on corporate governance to the business community and the public. Such reporting helps readers and listeners become aware of company activities that can significantly affect society.

The importance of good corporate governance ranges from its relationship to firm performance and valuation and, therefore, its role in stimulating investment and economic growth, to its influence on the application of principles like transparency, disclosure, accountability, and both rights and responsibilities in society beyond the corporate community. Journalism can be a potent force in this regard.

At the Eurasia Media Workshop in Almaty, Kazakhstan in summer 2008, 19 journalists attended, coming from Kazakhstan, Kyrgyzstan, Tajikistan, Azerbaijan, and Georgia. This program was co-organized by the Forum, the Thomson Reuters Foundation, the Center for

International Private Enterprise, and the IFC Central Asia team. Further workshops were held in Mumbai.

This training covered best practices in corporate governance and showed why coverage of corporate governance-related stories matters. The participating journalists shared their experiences with the international experts who the organizers had invited.

"One of the most valuable aspects of this training was the opportunity to meet the colleagues from the region. During these sessions, we learned that there are many similarities and differences in our countries that can be used as good foundations for articles and analytical materials that we prepare," said Dina Jekibayeva, a reporter from business weekly Capital.kz.

Another workshop was held in Mumbai, with the Forum, the Thomson Reuters Foundation, and the National Institute of Securities Markets co-organizing the event. A strategy planning session in Washington in July 2008 to commence the design and development of the new tool kit for training financial journalists was led by PSAG member John Plender, who is a lead writer for the *Financial Times*.

COMBATING FRAUD AND OTHER MARKET ABUSES: SUCCESS FACTORS

Market Abuse

- Efficient law—not statutory, greater use of rules and regulations promulgated by ministries
- Efficient investigation—concentrate on the most problematic issues
- Preventative sanctioning—prevention is better than cure

Market Manipulation

- Effective surveillance system
- Sound control system
- Price and volume restrictions
- Liquidity

Insider Trading

- Protect inside information from unauthorized access
- Awareness of employees—educate, highlight the risks, and monitor
- Dealing culture—train employees about market principles and reputational risk
- Internal regulations—adopt binding procedures or a code of best practices

Disclosure Duties for Issuers

- Sales prospectus
- Financial reporting
- Ad hoc disclosure of price-relevant inside information
- Directors' dealings
- Disclosure duties under takeover legislation

AHEAD

The Forum and Thomson Reuters Foundation are developing a toolkit for training journalists about corporate governance, which is targeted for completion by December 2009. Further workshops are being planned for India (to meet requests of several leading economic and financial publications), East and Southern Africa, and Latin America.

PERSPECTIVE: Board Governance in Challenging Markets

By Peter J. Dey

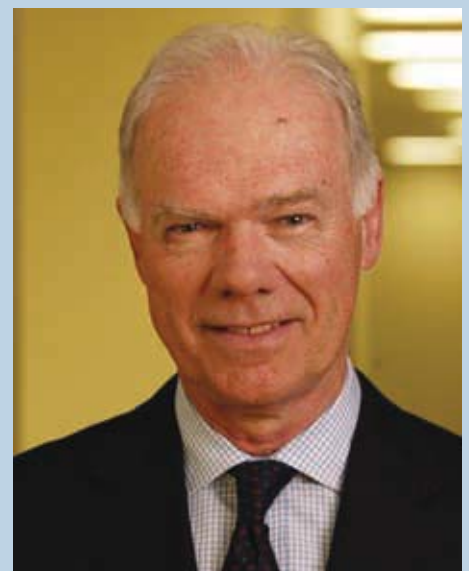
In the context of the unprecedented market conditions that now exist, here are some initiatives that every board should take to avoid investors and others asking the question: “Where Were the Directors?”

1. **Board Meeting.** Call a board meeting now. Don't wait until the next regular meeting. The agenda can include many of the items listed below.
2. **Convene Board Committees.** In connection with the board meeting, convene all committees. Again, the agenda can include some of the items listed below.
3. **Risk Management.** The board should review with management the risks to the business and satisfy itself that management's description is complete, that management fully understands the risks and has taken the necessary steps to manage the risks. The most effective contribution the board can make to risk management is to be very curious. The board has to be very persistent in its questioning of management. And in some circumstances, the board may want to go beyond management and seek expert advice as to whether management's approach is effective.
4. **Review Board Skill Set.** The board, with an improved understanding of the risks to the business, should look at its own composition. Does the board have the expertise necessary to critically assess management's response to the issues raised in point three above? It may be that the board will decide that having a bunch of bright directors who don't have any direct experience in the business of the company, asking questions at 50,000 feet is not enough. The board may want to recruit a director who has business experience comparable to the experience of the CEO.
5. **Study the Balance Sheet.** Boards, not just the audit committee, need to spend more time on the balance sheet. Boards usually focus on the income statement and the statement of cash flow—common metrics used by analysts to value companies. Boards need, however, to be conscious of the impact on the company's equity base of

asset write-downs necessitated by the falling values of assets generally.

6. **Review Capex Programs.** Boards need to review capex programs. This is a time when it may be wise to conserve cash. This may mean continuing capex only to the extent it can be supported by cash flow or cutting capex altogether.
7. **Review Credit Lines.** Boards need to check, and check again, the company's credit lines. Do the lines continue to be firmly in place? To what extent will these lines have to be drawn down? Will cash flow cover operating expenses or will the credit lines have to be drawn to cover operating expenses? Operating expenses should be reviewed. Are cutbacks possible?
8. **The Strategic Agenda.** Notwithstanding the gloominess in the economy and the tumbling values in the market, some companies, those with liquidity and aspirations to grow strategically through acquisition, should not abandon the strategic agenda. Companies with liquidity may be welcome homes or partners for those companies struggling to survive because of their illiquidity.
9. **Market Opening.** Companies in need of equity financing should position themselves to take advantage of any opening up of the markets. If there is a window, it will open quickly and may close just as quickly.
10. **Use of Equity.** Most compensation plans for corporate executives and for directors include an equity component. These plans were implemented at a time when equities were trading at values which are multiples of current trading values. Boards need to be sensitive to the use of equity for any purpose at this time, particularly as a component of a compensation plan, because of the potential dilution.

The current markets are forcing directors to be more defensive. Boards, by necessity, are focused on preserving shareholder value rather than creating shareholder value. In the current circumstances, markets are simply ignoring value-creating initiatives. This will not always be the case!



Peter J. Dey is chairman of Paradigm Capital Inc. Before this, he was a partner of Osler, Hoskin & Harcourt LLP, specializing in corporate board issues and mergers and acquisitions. Prior to this role, he was chairman of Morgan Stanley Canada Limited and was involved in developing both the Canadian investment banking business and the overall strategic direction of Morgan Stanley in Canada. From 1993 to 1995, Mr. Dey chaired the Toronto Stock Exchange Committee on Corporate Governance in Canada, which in December 1994 released the report, *Where Were the Directors?* (also known as the “Dey Report”). The report established corporate governance standards for Canadian corporations. Mr. Dey chairs PSAG.

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

MARTIN GRUELL, RAIFFEISEN INTERNATIONAL

Political Interference, Inadequate Training, Small Pool of Qualified Directors – Africa’s Greatest Obstacles



Patrick Chisanga is past President of the Institute of Directors of Zambia, having served in that role for three consecutive years (2002 to 2004). He was elected Chairman of the task force that was established by Zambia’s business community in 1998 to draw up the institutional framework and regulatory guidelines that led to the institute’s establishment in 2000. As the institute’s President, he helped establish a full-time secretariat of IoD Zambia. He has also been responsible for starting development of a director training program targeted at companies and organizations in the public and private sectors. As a PSAG member, he has provided counsel on corporate governance reform initiatives. Mr. Chisanga is currently Chairman of Muchanga Investments Limited, a family-held group of companies that he founded in 1985. He is also the Managing Consultant of Dynamic Concepts (Z) Ltd, which provides corporate governance consulting and both corporate and personal development training.

Why is advancement of corporate governance best practices key to Africa’s development?

A close examination of the economic performance of most African countries in the last 15 years or so reveals that there is a strong, growing correlation between the levels of economic advancement attained in different countries and the corresponding levels of improvement in corporate governance.

When we examine the current status of corporate governance in the 14 countries in the Southern African Development Community, we observe that the countries that have attained the highest levels of corporate governance reform—such as South Africa, Zambia, Namibia, Mauritius, Seychelles, Botswana, and recently, Mozambique—are also enjoying growing levels of investor confidence and economic expansion.

In my mind, there is no doubt that a strong correlation is emerging between good corporate governance practices and the levels of economic development being attained on the African continent.

In particular, state-owned enterprises?

Twenty years ago, the vast majority of African economies were dominated by state-owned, or state-controlled enterprises. The corporate landscape has changed in the last 15 years, but it remains a fact that SOE’s still occupy a considerable percentage of the national economies in Africa.

In particular, one also observes that a large number of strategic industries such as electricity generating and distribution companies, telecommunications businesses, water utilities, railroads, and airlines are still very much state-owned or state-controlled.

It follows therefore, that low-level corporate governance practices in these key economic sectors will impact negatively on the economy’s performance.

What are the key obstacles?

The key obstacles to the advancement of corporate governance in most African states can be traced to the following broad factors:

Political interference: Government ministers and senior civil servants who are given the responsibility to oversee the affairs of SOEs, in particular, tend to overextend their control in the operations of those enterprises. It is not uncommon, for instance, to see ministers giving executive directives to chief executives of SOE’s in complete disregard of their board directors.

Political interference also manifests itself in frequent changes in appointments to boards and senior management in a manner that clearly exhibits patronage. In such situations, the board’s autonomy is seriously compromised.

Director training: Some people appointed to serve on boards in Africa possess little or no prior director training and experience. Many are appointed from the “old boy network” or, in some cases, through political patronage.

Insufficient non-executive and independent directors: Many boards in Africa still carry a preponderance of executive and non-independent directors, whose independence of mind in difficult decisions is questionable.

A case in point is the board composition of Mozambique’s giant power generating and distribution company, EDM. The majority on the board were executive directors as of May 2008.

How can these obstacles be addressed?

These obstacles can effectively be addressed through exposure to corporate governance principles and practice at both the political and the corporate levels.

In this regard, institutes of corporate governance, or institutes of directors, can play a crucial role through the process of extending corporate governance training to government ministers and senior civil servants in all ministries as well as conducting director orientation programs at the corporate level.

It must be appreciated that corporate governance training cannot be seen as a one-off exercise. It must be undertaken regularly and continuously to ensure that directors, and all those who have an influence on a country’s corporate affairs, remain up-to-date on the ever unfolding global corporate governance landscape. The dissemination of international standards and practices, which are being effectively done by the Forum through its toolkits, is not sufficient. What is needed is staff on the ground to lobby, explain, and provide follow-up for the necessary changes to occur in peoples’ mindsets and behaviors.

Forum Publication Highlights

Business Ethics and Corporate Governance—Key Anti-Corruption Tools

Fierce global competition demands that boards and senior management develop a strong culture of ethical business conduct to prevent their falling into a vicious downward cycle of corruption, argues the author of a forthcoming Forum publication.

“Corruption is a corrosive drain on public trust and on the legitimacy of public and private sector institutions,” writes John D. Sullivan, executive director of the Center for International Private Enterprise (CIPE). “Its toll can be devastating to a national economy, particularly at a time when open global markets can rapidly reverse investment and capital flows if confidence and trust is compromised.”

The *Focus* publication, *The Moral Compass of Corporations: Business Ethics and Corporate Governance as Anti-Corruption Tools*, provides guidance and recommendations for integrating ethics programs into corporate governance mechanisms to guard against corruption.

“The best way to protect the ethical culture of an organization is to actively promote it, practice it, train in it, update it, and make it real and visible to external and internal stakeholders,” Sullivan writes. “In other words, the development of an ethical culture results from continual and ongoing corporate commitment to integrate and align a corporation’s ethical standards with business strategy and operations.”

Evaluating Board Performance

Simon Osborne FCIS, Solicitor, Director, ICSA Board Performance Unit, examines one of the most valuable tools available to

today’s boards of directors—evaluation. Published as part of the *Private Sector Opinion* series, this comprehensive examination explains the various processes involved in implementing an evaluation and provides insightful questions that should be included in an evaluation.

Most forward-looking companies have formal procedures in place for the regular appraisal or evaluation of both staff and departments at various levels throughout the organization. However, until comparatively recently, few had extended this process to the board itself.

“Overall, it cannot be stressed enough that it is essential that the purpose of board evaluations is to help the board do what it wants—i.e., to perform to its maximum capability by creating shareholder value and maximizing returns for shareholders,” Osborne wrote. “Evaluations must be supportive of the board and the directors, whilst being rigorous and even handed, in order to give the best results.”

Developing, Implement Codes

In this *Private Sector Opinion*, Simon Wong shares his extensive experience in developing and implementing corporate governance codes. Wong is Head of Corporate Governance at Barclays Global Investors.

He addresses the key advantage of a code versus a mandatory approach to regulating corporate governance in three aspects: dissemination, flexibility of corporate practice, and transparency. Wong cautions against code “transplanting” and the need for a well thought through process that takes into account the economic and legal environment that shapes the board’s structure and behavior

“At the end of the day, each country—whether developed or emerging—must devise its own approach to developing and successfully implementing corporate governance codes,” Wong writes.

“While all governance codes should be benchmarked against international best practices to aid comparability, they must also be customized to work in the local environment.”

“Careful consideration during the design phase of the principal objectives to be achieved, the broader societal and regulatory context, and the optimal allocation of monitoring and enforcement responsibilities—combined with periodic refinements after their introduction to remedy shortcomings and respond to new developments—will increase the likelihood that corporate governance codes will have the desired impact.”

AHEAD

The Forum will publish an English translation of the *Focus 6* (Spanish version): *Drivers of Corporate Governance Reforms: Take-Over and Tender Offer Experiences in Chile and Panama*. *Private Sector Opinion* will publish articles on the financial crisis and its impact on boards. Future editions of *Lessons Learned* will look at the experiences of code development and the Private Sector Advisory Group. A future *Focus* will examine the role of women on boards while another will explore board engagement with stakeholders.

Global Digital Library on Ethics Launched

A new global digital library on ethics provides users with free access to full-text versions of about 200 journals and more than a million documents in the field of applied ethics.

Globethics.net developed the library as part of its efforts to empower people worldwide to reflect and act on ethical issues. They wanted to ensure that persons and institutions—especially in Africa, Asia, and Latin America—have access to high quality, up-to-date information. There is no cost for using the library. By registering (free of charge as participants on the Globethics.net Website, www.globethics.net), individuals can access full-text journals, encyclopedias, e-books, and other resources.

The library not only offers free access to knowledge sources, but it also offers participants the unique opportunity to submit their own documents on applied ethics (e.g., articles, journals, books, dissertations, and newsletters) to the Globethics.net library.

FORUM'S FISCAL 2009 PLANS

Capacity Building

- Continued focus on technical assistance, specifically Sub-Saharan Africa, to help strengthen the institutions that support corporate governance reforms and director development
- Expand work in implementing recommendations drawn from the World Bank Corporate Governance Reports on Observance of Standards and Codes (ROSC) for Zambia, Senegal, Malawi, and Bulgaria
- Roll out globally of *Corporate Governance Board Leadership Training Resources* to build institutions' capacity for implementing and strengthening boardroom practices to achieve well-run companies, which improve societies by providing jobs and other economic benefits
- Worldwide roll-out of media training with Thomson Reuters Foundation to improve the quality of financial journalists' coverage of corporate governance issues and their role in holding companies' accountable through their reporting
- Lead IFC staff in learning about and using the Forum's products and programs to build scalability of the Forum's work globally

Knowledge Management

- Complete toolkit on corporate dispute resolution to help boards solve disagreements among board members and with internal and external stakeholders, including shareholders
- Continued attention to "lessons learned" and case studies to demonstrate issues associated with implementation of corporate governance in economic development
- Develop the Forum's Website to broaden its reach to a wide range of audiences that can access its products, which are provided for the global public good

Project Supervision

- Secure new sources of global and bilateral funding to support the growing demand for the Forum's services and products
- Continue with selected measurement and evaluation of key projects to demonstrate Forum's effectiveness in helping countries alleviate poverty and achieve sustainable economic progress
- Implement recommendations from the independent evaluation of FY '04 – '07 programs to enhance the Forum's delivery and program supervision



Philip A. Armstrong, Forum Head, discussed the Forum's accomplishments in advancing corporate governance reform in emerging market countries and outlined practical solutions for companies in Vietnam to consider as they adopt best practices. The June 2008 conference in Ho Chi Minh City was organized by the Vietnam Chamber of Commerce and Industry, BaoMinh Insurance Corporation, and the Chubb Group of Insurance Companies. In the photo, from left to right: Armstrong; Le Dinh Bui Tri, Director of Southern Branch of the State Capital Investment Corp. (SCIC); Dr. Ninh Ngoïc Baõu Kim, Country Representative, The Asia Foundation; Dr. Tran Vinh Duc, Chairman of the Board and Chief Executive Officer, BaoMinh Corporation; and, Aaron Yip, Regional Manager (South East Asia), Chubb Specialty Insurance.

PRIVATE SECTOR ADVISORY GROUP: CONTRIBUTING TO THE PUBLIC GOOD

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.

SECRETARIAT

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