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# Corporate Governance Department World Bank Group

## Global Good Practices in Corporate Governance

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- What is corporate governance and why is important?
- What can be done to improve corporate governance?
- How can the World Bank help?

# Key World Bank strategic pillar: improve the investment climate

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- A conducive investment climate is crucial for economic growth and poverty reduction
- Considerable effort is focused on improving the competitiveness of the small and medium enterprise sector, and formation of new companies...
- Corporate governance affects the “portfolio investment climate” – how investors view the risks and returns of investing in companies and in markets.

# What is Corporate Governance? A standard definition...

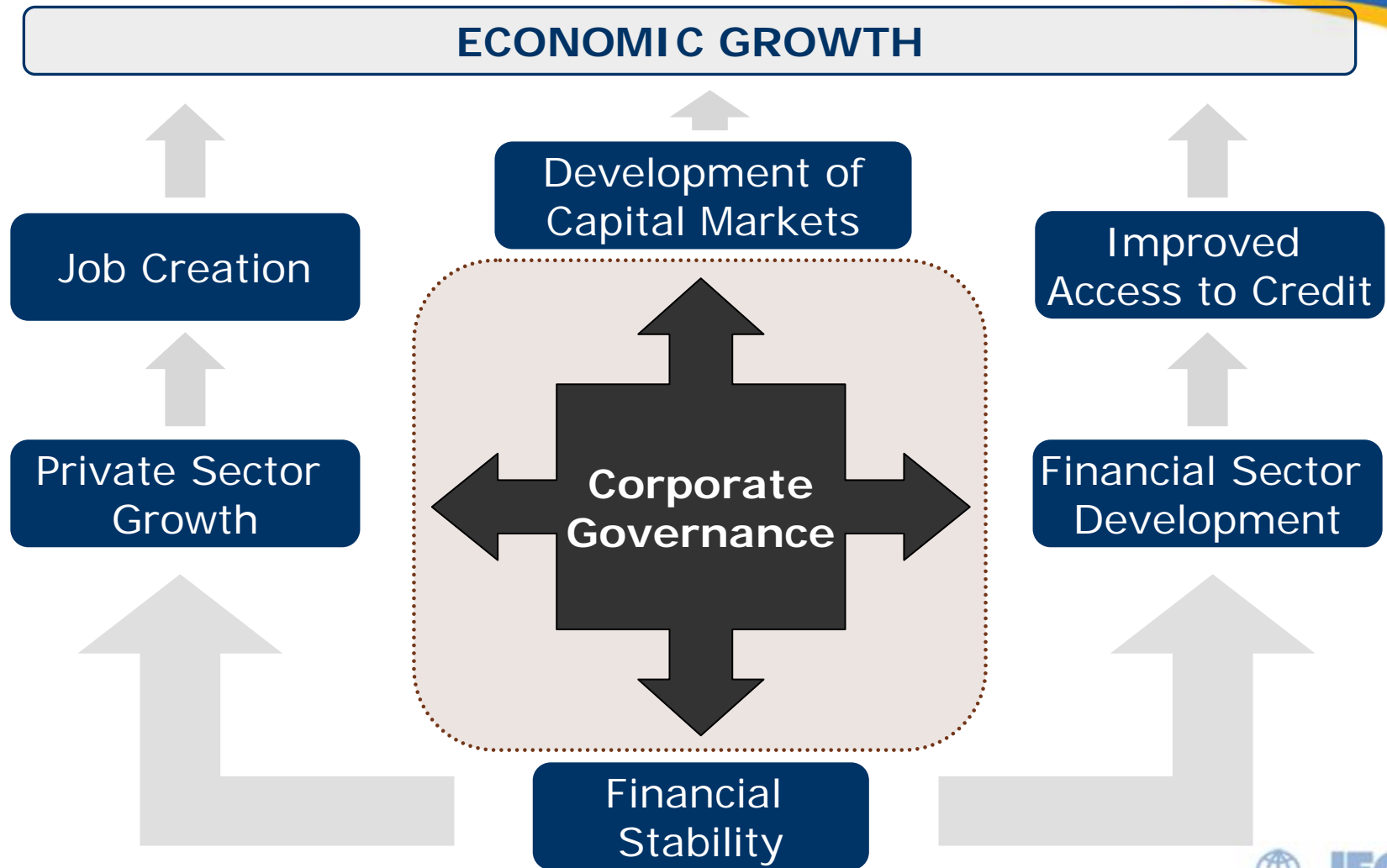
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« Corporate governance is the system through which a company is directed and controlled. The system consists of checks and balances on, oversight of, and appropriate input into, the management of the company, which is conducted by its senior executives »

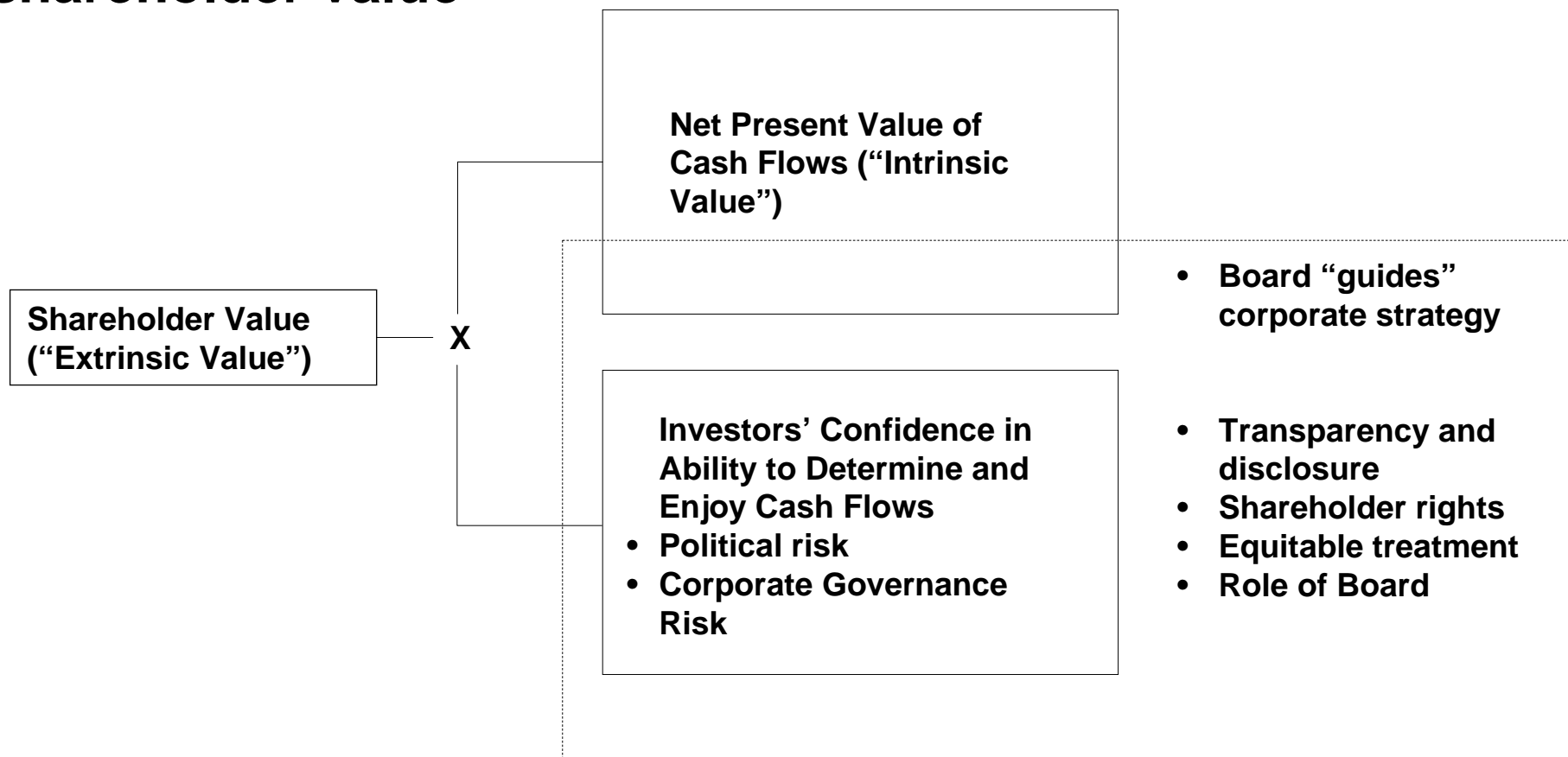
# The value of improved corporate governance ...

- For **shareholders** (including pension beneficiaries):
  - Protection from abuse
  - Increased shareholder value
- For **companies**:
  - improved access to finance (both equity and debt)
  - Higher valuations
  - Better decision-making
- For **regulators and supervisors**:
  - A first line of prudential defense
  - Increased financial stability
- For **markets and economies**:
  - Higher market capitalization and liquidity
  - More “champion” companies that can compete and grow internationally
  - Higher economic growth

# The value of improved corporate governance ...

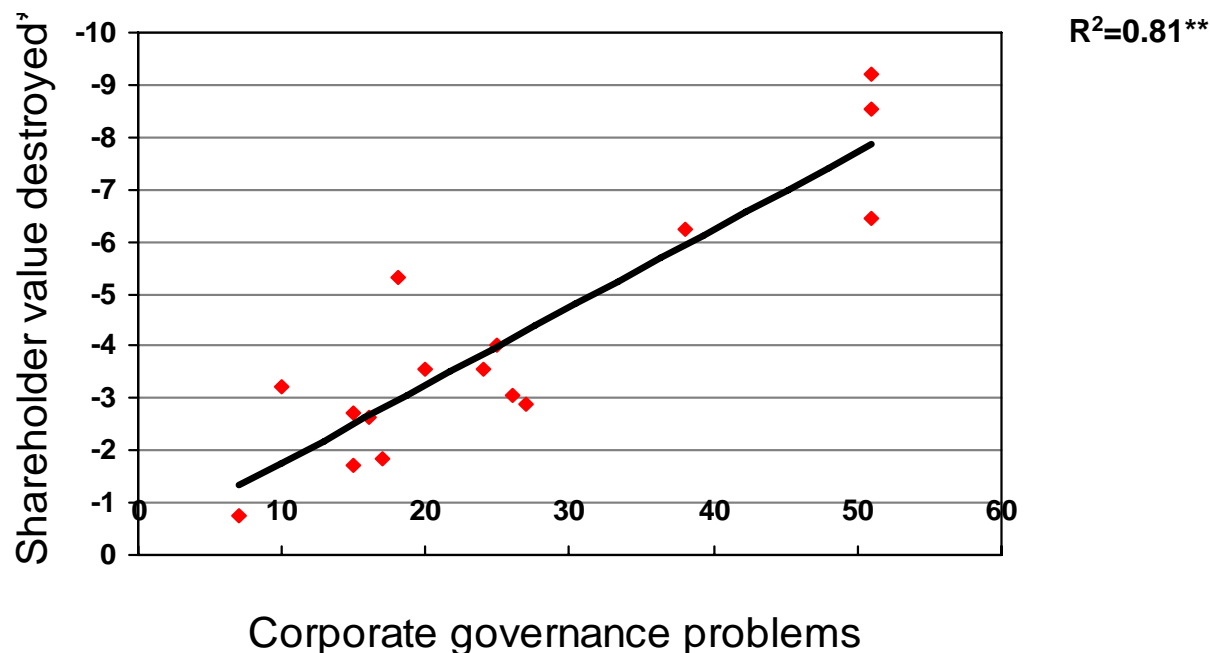


## Good governance both protects and builds shareholder value



# Research supports the value of improved corporate governance

Regression: Shareholder Value Destruction on Bad Corporate Governance



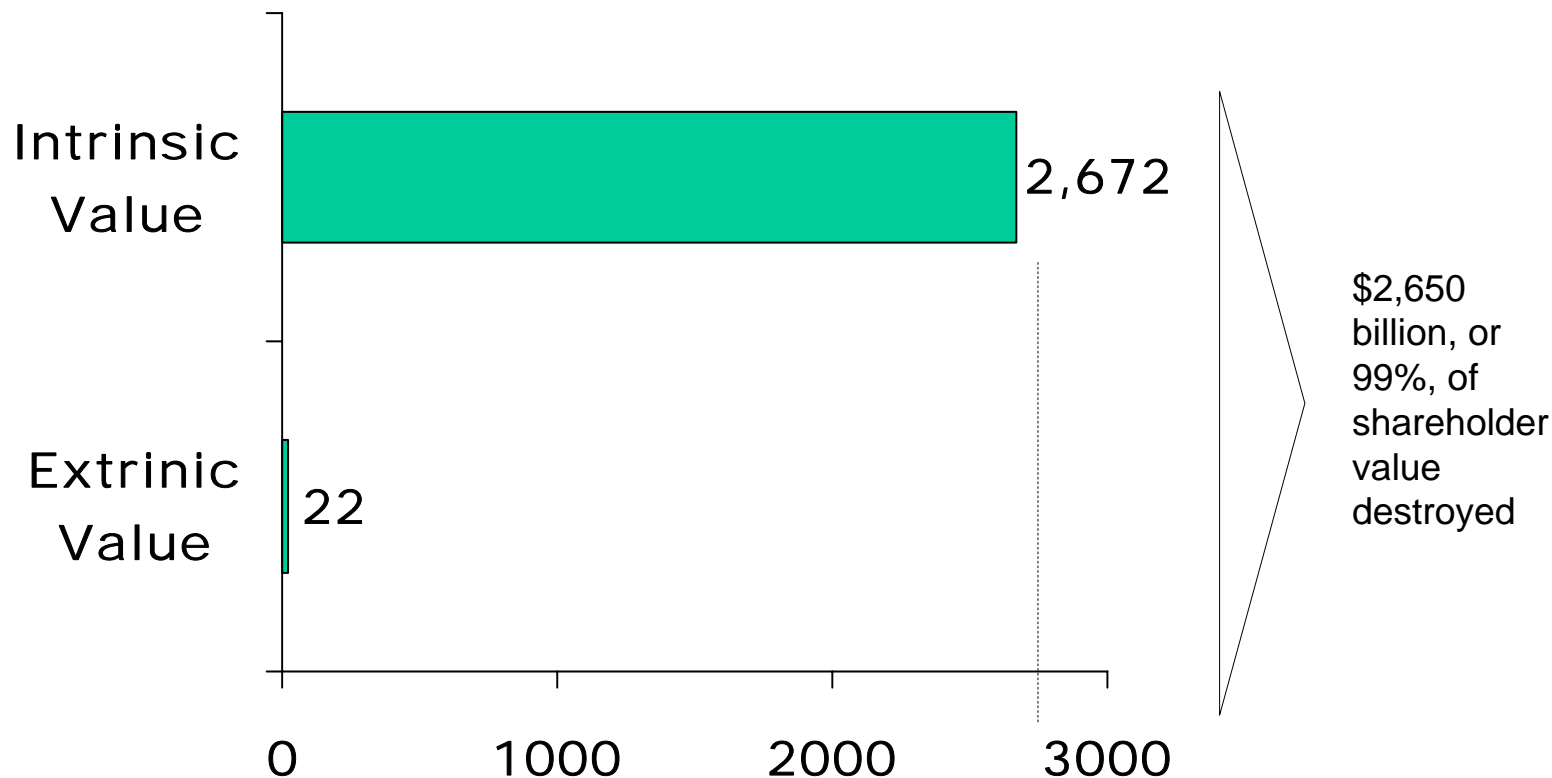
\* In actual/potential market capitalization)

\*\* Statistical significance (t = -7.63)

Source: Bernard Black, "Does Corporate Governance Matter? A Crude Test Using Russian Data," Univ. of Pennsylvania Law Review, Vol. 149 (2001), pp. 2131-2149 (SSRN Release)

# Shareholder value destruction from bad corporate governance

Shareholder Value Destruction in 16 Leading Russian Companies 1999\*  
US\$ billions



\* Adjusted for political risk  
Source: Bernard Black

# International Consensus: the OECD Principles of Corporate Governance

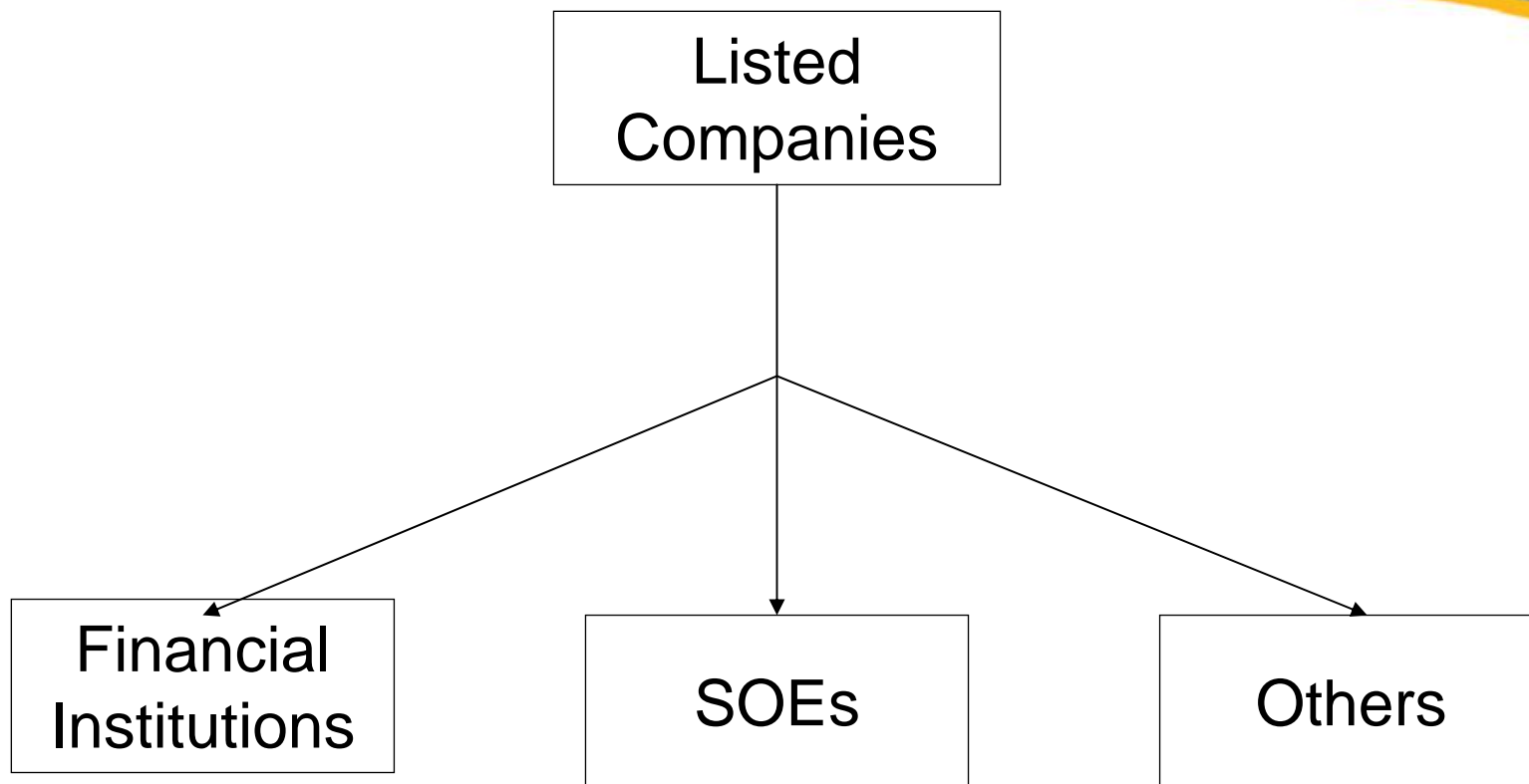
- Certain basic principles apply in all countries:
  - The Rights of Shareholders
  - The Equitable Treatment of Shareholders
  - The Role of Stakeholders
  - Disclosure and Transparency
  - The Responsibilities of the Board
- Designed to apply to companies listed on stock exchanges
- Focus on outcomes, not specific rules
- Adopted by international institutions one of twelve international standards underpinning financial stability

## Key issue:

# protecting minority investors from the majority

- Controlling investors play a valuable role as entrepreneurs and as monitors of management
- But: who watches the watchers? Controlling investors can legally expropriate assets through:
  - Transfer pricing / related party transaction mechanisms
  - Takeovers and mergers
  - Insider trading
  - Other actions taken by the company that favor some shareholders over others
- Controlling owners can be foreign investors, financial industrial groups, or the State

# Evolution towards public interest entities



# Banking sector governance now high on the agenda

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- Basel II: new focus on operational risk
- Basel Committee on Banking Supervision issued *Enhancing Corporate Governance for Banking Organisations* in February 2006.
- Corporate governance is now “first line of defense” to many regulators.
- Many rating agencies (Moody’s / Fitches) are carrying out bank corporate governance assessments

# Key elements of the Basel Committee Guidelines

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1. Fundamental Underpinnings
2. Role of owners in promoting sound governance, “fit & proper”
3. Board qualifications, priorities
4. Board Audit Committee members independence & qualifications
5. Corporate values, professional conduct
6. Disclosure & transparency

What can be done to improve  
corporate governance?

# Improving corporate governance

- Companies can take action to improve their corporate governance
- But what can regulators and policymakers do to improve the corporate governance framework in their country?

# Tools for corporate governance reform

## Corporate Governance Framework

- **Awareness raising**
- **Legal and regulatory reform**
  - Company law
  - Securities law
  - Secondary regulation
  - Listing rules
  - Codes of Best Practice (“soft law”)
- **Court and judicial reform**
- **Institutional reform and capacity Building**
  - Securities Commission
  - Stock exchanges
  - Central depositories
  - Company registrars
  - Audit oversight bodies
  - Institutes of Directors
  - Shareholder Associations
- **Accounting and audit reform**
- **Company-level training and other interventions**

## Banks / Financial Institutions

- Capacity building and supervisory training
- Banking law reform
- Corporate governance regulations
- Corporate governance codes
- Bank-level training and other interventions

## State-Owned Enterprises

- Capacity building of State ownership entities
- Supporting legal reform
- Development of ownership policies
- Training and other interventions

# How can the World Bank help?

# Who we are...

## Corporate Governance Department

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### Global Corporate Governance Forum

- Multi-donor trust fund
- Technical assistance
- Toolkit development

### Corporate Governance Policy Practice

- ROSC assessments
- IFA / OECD liaison
- Cross-support
- Input into operational work

EAP

ECA

LCR

AFR

MNA

### IFC

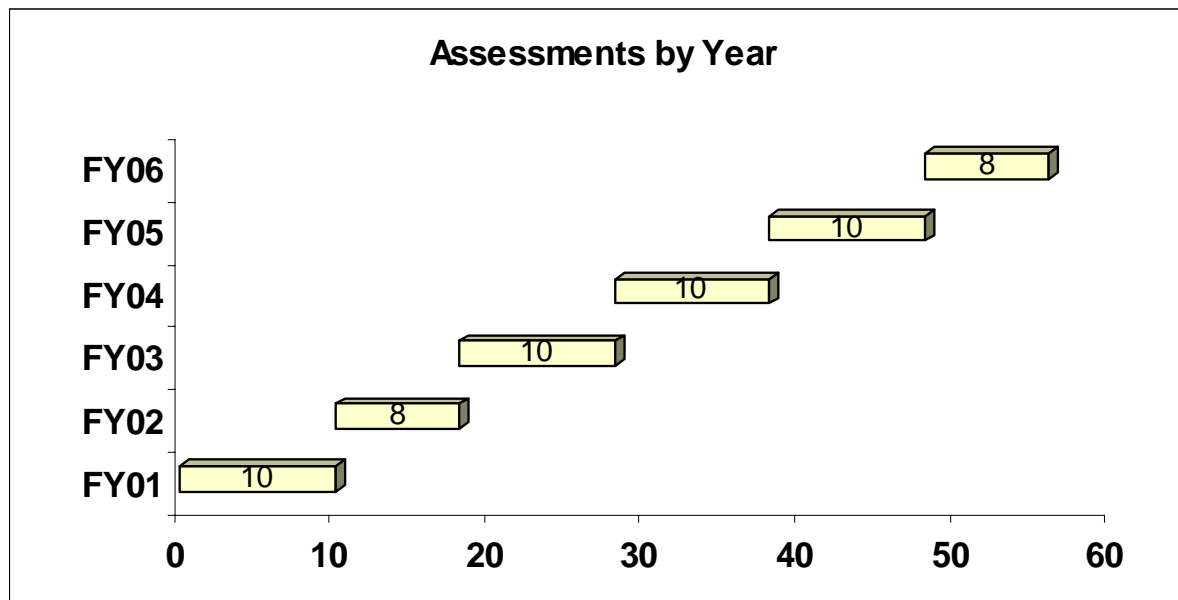
- Evaluates client companies
- Recommends improvements
- Helps clients implement best practice
- Technical assistance

- Corporate governance is one of 12 standards and codes assessed by IMF and World Bank
- Standardized report (Report on Observance of Standards and Codes, ROSC) including policy recommendations
  - Benchmarks law and practice against the 66 OECD Principles of Corporate Governance
  - Country participation is voluntary
  - Publication (voluntary) at:  
[http://www.worldbank.org/ifa/rosc\\_cg.html](http://www.worldbank.org/ifa/rosc_cg.html)

# Overview of World Bank Corporate Governance ROSC Assessments

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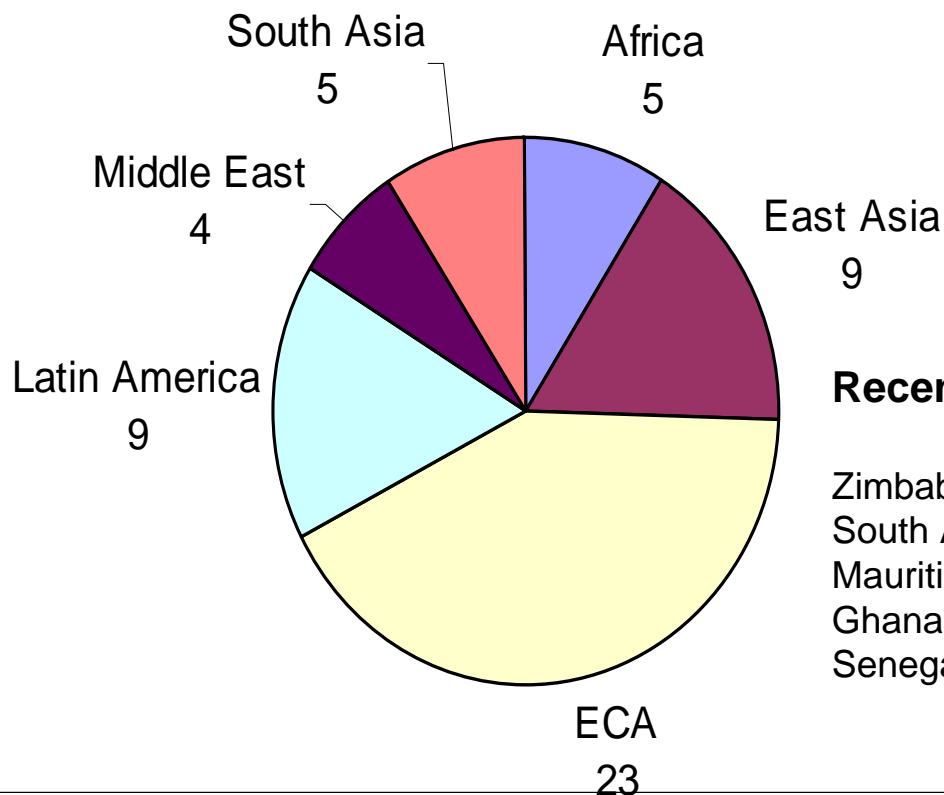
Published	46
Completed (not yet published)	12



# Corporate Governance ROSC Regional Overview

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## Assessments By Region



## Recent ROSCs in AFR:

Zimbabwe	2001
South Africa	2002
Mauritius	2002
Ghana	2005
Senegal	2006

# Corporate Governance ROSC: History

<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
<i>Brazil</i>	Georgia	Mauritius	Egypt 2	Armenia	<i>Uruguay</i>
Croatia	Czech 2	<i>Brazil 2</i>	Slovenia	Poland 2	Bosnia
Czech Rep.	Lithuania	Hungary	<i>Russia</i>	Ghana	<i>Senegal</i>
Egypt	Bulgaria	<i>Ukraine</i>	India 2	Pakistan	<i>Ukraine 2</i>
India	Latvia	Korea	Peru	Thailand	Vietnam
Malaysia	Morocco	Hong Kong	Romania 2	Malaysia 2	<i>Philippines 2</i>
Philippines	<i>Romania</i>	Chile	Indonesia	Nepal	<i>Bhutan</i>
Poland	South Africa	Mexico	Jordan	<i>Brazil 3</i>	<i>Senegal SOE</i>
Turkey		Slovakia	Moldova	Macedonia	
Zimbabwe		Colombia	Panama	Azerbaijan	

Notes: Assessments in **bold** are in process. Assessments in italics have not been published.

# New specialized diagnostics: Banks and SOEs

## Banks

- Team works with banking supervisor to review governance in the banking sector.
- Survey of banks and supervisory practices
- Confidential report benchmarking law and practice against Basel Committee Guidelines, including policy recommendations.
- 4 initial reviews completed, 3 underway

## SOEs

- Team works with ownership entity to review governance of SOEs and the state ownership function.
- Survey of SOEs and legal requirements.
- Report benchmarking law and practice against OECD Guidelines for SOE Governance
- 4 initial reviews completed, 6 underway

# Thank you!

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