ADFIAP
financing sustainable development

GOVERNANCE

Promoting good governance in development finance institutions

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CG PROJECT

ADFIAP, CIPE, ADFIP Organize Governance Seminar

ADFIAP, with funding support from the Center for International Private Enterprise (CIPE), and in cooperation with the Association of Development Financing Institutions in the Pacific (ADFIP) held the Seminar on Corporate Governance & Risk Management Compliance Program for Banks on May 19, 2006 in Koror, Palau. The National Development Bank of Palau (NDBP), a member of both ADFIAP and ADFIP, hosted the event in the island country.

This training program is an offshoot of the "Compliance Officership Program" (COP) held on December 12-16, 2005 in Manila, Philippines, which aims to develop a corps of Compliance Officers (COs) in member-banks to institute good governance and anti-corruption initiatives and to set up a Compliance Units (CUs) in their respective institutions. The COP is the 3rd phase of the capacity-building program of the *Corporate Governance Project* for ADFIAP members.

The Palau program paved the way for the enhancement and strengthening of the function and role of the compliance officers (COs) in development banks and other financial institutions in the country from one of a documentary compliance and public relations to being more proactive in the governance and anti-corruption due diligence policies and practices in their respective organizations.

The event was attended by 18 participants from different financial institutions in the Pacific Islands.

CG RECOGNITION

DBP, PhilEXIM in Top 4 of Governance Rating

The Development Bank of the Philippines (DBP) and the Philippine Export-Import Credit Agency (PhilEXIM) scored highest among 31 Government-owned and controlled corporations (GOCCs) in the country according to the results released recently under the Corporate Governance Scorecard (CGS). The results were presented by Baltazar Endriga, trustee of the Institute of Corporate Directors (ICD) at the third annual dinner for ICD fellows and associates on May 24, 2006.

DBP's top scorecard rating is a commendable feat for the Bank since this is not only the first run of the CGS for GOCCs in the Philippines, but more notably, in the world. The project was conducted by ICD, a non-profit organization promoting corporate governance reform and professional corporate directorship in the Philippines.

PhilEXIM, on the other hand, has been honored with the results which is a testament of the institution's continuing reforms on its governance practices, particularly in the areas of service enhancement, accounts processing and credit management.

In his message, ICD chairman Jesus P. Estanislao, explained that CGS is a tool that praises and trains the spotlight upon those who do well; in time, it should also inform the general public of those who do not do as well. The support they are giving to everyone is an opportunity to improve their corporate governance practices. They should be told the specific areas in which they can improve their scores, where they can make significant advances towards better corporate governance practices. This is where the corporate governance scorecards come in.

According to Dr. Estanislao, the ICD is aware that many sectors in the economy have expressed that GOCCs and GFIs should help set the tone for improved corporate governance practices. By virtue of its character, GOCCs and GFIs that are fully invested with public interest should be at the very top efforts at corporate governance reforms.

CG LAW

The Sarbanes-Oxley Act at a Glance

The Sarbanes-Oxley Act was signed into law by President George Bush of the United States to enforce tougher governance rules among US and foreign companies.

The enactment of Sarbanes-Oxley came in due response to the recent wave of corporate scandals. The Act self-described as "protecting investors by improving the accuracy and reliability of corporate disclosure made pursuant to the securities laws", includes, among others, the following key provisions:

- CEO/CFO certification of financial statements.
- Ban on personal loans to directors and executives.
- Prohibition of certain non-audit services for accounting firms.
- Regulation of audit committee responsibilities and composition.
- Disclosure requirements for off-balance sheet transactions.
- Limited insider trading during pension fund blackout periods.
- Two-day deadline for reporting share transactions.
- New regulatory body for public accounting firms.
- Increased civil and criminal penalties for corporate fraud.

Source: iccbo.org

This publication is a result of ADFIAP's cooperation with the Center for International Private Enterprise (CIPE)

Consequences of Corruption

Among the many disagreeable aspects of corruption is evidence that it slows economic growth through a wide range of channels.

➲ In the presence of corruption, businessmen are often made aware that an up-front bribe is required before an enterprise can be started and that afterwards corrupt officials may lay claim to part of the proceeds from the investment. Businessmen therefore interpret corruption as a species of tax—though of a particularly pernicious nature, given the need for secrecy and the uncertainty that the bribe-taker will fulfill his part of the bargain—that diminishes their incentive to invest. Empirical evidence suggests that corruption **lowers investment and retards economic growth** to a significant extent.

➲ Where rent seeking proves more lucrative than productive work, **talent will be misallocated**. Financial incentives may lure the more talented and better educated to engage in rent seeking rather than in productive work, with adverse consequences for the country's growth rate.

➲ Of particular relevance to developing countries is the possibility that corruption might reduce the effectiveness of **aid flows** through the diversion of funds. Aid, being fungible, may ultimately help support unproductive and wasteful government expenditures. Perhaps as a result, many donor countries have focused on issues of good governance, and in cases where governance is judged to be especially poor, some donors have scaled back their assistance.

➲ When it takes the form of tax evasion or claiming improper tax exemptions, corruption may bring about **loss of tax revenue**.

➲ By reducing tax collection or raising the level of public expenditure, corruption may lead to **adverse budgetary consequences**. It may also cause monetary problems if it takes the form of improper lending by public financial institutions at below-market interest rates.

➲ The allocation of public procurement contracts through a corrupt system may lead to lower **quality of infrastructure and public services**.

➲ Corruption may distort the **composition of government expenditure**. Corruption may tempt government officials to choose government expenditures less on the basis of public welfare than on the opportunity they provide for extorting bribes. Large projects whose exact value is difficult to monitor may present lucrative opportunities for corruption.

***Source: Paolo Mauro**, an economist in the European I Department of the International Monetary Fund*

"Governance" is a quarterly publication of the Association of Development Financing Institutions in Asia and the Pacific (ADFIAP). It highlights ideas, best practices and trends in good corporate governance. *Article contributions can be sent to robertj@adfiap.org*

BOARD OF DIRECTORS

The Board's Responsibilities

The Board of Directors play a very vital role in the success of any organization. They are the pillars that will make an organization stand the test of time. Below are some responsibilities of the board of directors specified by Devdatt Bhangui, Partner at RBC Capital Partners in his article the "Active Role of the Board:"

⇨ For emerging growth companies, selecting the CEO is one of the most important responsibilities of the Board. Founders are usually visionaries who, while having unrivalled passion, may not have the skills and experience required to execute on that vision and turn it into a successful business enterprise.

⇨ The other key responsibility of the Board, specifically the strategic planning sub committee, is to develop the long-term strategic plan for the company. This sub group of Board members heavily influences the long-term value proposition and roadmap of the company. For instance, the committee may decide that the long-term strategy should be an exit via a merger or a public offering. The committee would then take steps to ensure the company's value proposition is attuned to investors' expectations during the investment horizon.

⇨ In order to safeguard the interest of the company's shareholders, the Boards needs to set goals and monitor the progress of the company through both financial and non-financial measures. For example, the Board can observe expenditures, inventory investments and examine customer and supplier contracts.

"The Board needs to set goals and monitor the progress of the company through both financial and non-financial measures."

--Devdatt Bhangui