

GOVERNANCE

Promoting good corporate governance in development finance institutions



Volume II Issue No. 1

www.adfiap.org

March 2005

CODES OF ETHICS

Developing Codes of Ethics

Codes of ethics are not easily created from boilerplate. Ideally, the development of a code will be a process in which boards and senior management actively debate and decide core values, roles, responsibilities, expectations, and behavioral standards.

Typically, codes of ethics are divided into five sections:

1. **The introductory section**, in which the organization introduces the code and explains why it is being promulgated, to whom it applies, and how it is to be used. The introduction also typically contains a personal statement by the CEO of his or her commitment to the values contained in the code, and a promise to act consistently with those values.
2. **A statement of core values and principles** with each defined in simple business language. Principles may be "moral" principles, such as honesty, respect, and fairness; they also may be "pragmatic/business" principles, such as excellence, profitability, quality, or customer satisfaction.
3. **Behavioral example illustrating each value/principle**, with a clear statement that such illustrations are not intended to be inclusive or limiting. Often these examples involve the very types of dilemmas and ambiguities that an individual might encounter in his or her job and are supplemented with references to specific company policies.
4. **A discussion of the organization's supporting systems**—the infrastructure that supports the code. Typically, this includes such items as where to go for interpretation, how to report suspected misconduct, where to find answers to frequently asked questions, and whether these systems may be used anonymously.
5. **A statement regarding personal responsibility**, indicating that it is each individual's responsibility to know and understand the expectations and requirements set forth in the code and to meet those standards.

Source: www.thelenreid.com

LEGAL AND REGULATORY FRAMEWORK

Ensuring an Effective Legal and Regulatory Framework for SOEs

The legal and regulatory framework for state-owned enterprises (SOEs) should be developed in order to ensure a level-playing field for SOEs and the private sector in areas where they compete and with the view to promote good corporate governance practices, following in this regard are the OECD Principles of Corporate Governance.

- There should be a clear separation between the ownership function and the state's other roles that may influence the conditions for state-owned enterprises' activity, particularly in regulation and industrial policy.
- Governments should strive to simplify and streamline the legal form under which SOEs operate as well as their operational practices.
- Any specific obligation that an SOE is required to undertake in terms of public service provisions or special responsibilities above the generally accepted norm should be clearly identified by laws and regulations, disclosed to the general public, and provision made to cover related costs in a transparent manner.
- SOEs should not be exempt from the application of general laws. Other shareholders and stakeholders, including competitors, should have access to efficient redress mechanisms in case their rights are violated.

Source: gegf.org

"Corrupt politicians make the other ten percent look bad."

--Henry Kissinger, American Statesman (1923)

"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. Copyright, 2004, ADFIAP. Article contributions can be sent to robertj@adfiap.org

Responsibilities of SOE Boards

State-Owned Enterprises (SOE) boards should have adequate authority, the necessary competencies and sufficient objectivity to carry out their function of strategic guidance and monitoring of management. The board should act with integrity and be accountable for its actions.

- A. SOE boards should be assigned a clear mandate and ultimate responsibility for SOEs performance. They should be fully accountable to the owners, act in the best interest of the company and treat all shareholders equitably.
- B. SOE boards should exercise objective and independent judgment. They should consist of members with relevant competence and experience and include a sufficient number of non-executive and independent members. The number of members from the administration should be limited and all board members should be nominated through a transparent nomination process.
- C. Where employee representation on the board is mandated, mechanisms should be developed in order to guarantee that this voice is exercised effectively and contributes to the enhancement of the board skills, information and independence.
- D. The Chairpersons of the SOE boards should have the relevant competencies to fulfill their crucial role. Good practice calls for the post to be separate from the CEO.
- E. SOE boards should carry out their functions of monitoring of management and strategic guidance, subject to the objectives set by the government and the ownership entity. They should have the power to appoint and remove the CEO.
- F. When necessary, SOE boards could set up specialized committees to support the full board in performing its most essential functions. These committees could be set up in particular with respect to audit, risk, remuneration, nomination and ethics.
- G. SOE boards should carry out an annual evaluation to appraise their performance.

“Directors owe their loyalty to the company and are accountable to the shareholders. Managers are appointed by and are answerable to the directors.”

The World Bank Assistance in Curbing Corruption

The World Bank has stood committed to helping countries that request assistance in curbing corruption. The Bank addresses corruption in systematic terms. It is not the Bank’s role to identify and prosecute individual offenders, but rather to address the various aspects of policy and institutional reform that are likely to be critical in reducing corruption. These aspects comprise a multi-pronged approach to combating corruption and include: economic policy and its implementation, institutional reforms and the framework for civil service employment, the legal-judicial system, financial control mechanisms, and the extent and nature of public oversight. At base, however, helping governments reduce corruption is contingent on a credible commitment by political authorities to that agenda.

In addition to providing loans, grants and assistance for economic policy reform and institutional strengthening (all of which help prevent and reduce corruption), the Bank can provide special assistance for countries requesting specific assistance with anti-corruption measures. These include:

- ⇒ help in designing governments’ anti-corruption programs;
- ⇒ conducting surveys that diagnose the extent and character of corruption in a given country;
- ⇒ disseminating the results of these surveys; and
- ⇒ facilitating and providing workshops, courses and training for governments and members of civil society.