GOVERNANCE

Promoting good corporate governance in development finance institutions

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BOARD OF DIRECTORS

Responsibilities of the ADFIAP Board of Directors

The ADFIAP Board of Directors sets the future of the Association. It sets its vision and mission and operational goals. The Board:

➲ meets regularly to review its strategic direction, to define specific goals and objectives related to the mission, and evaluates the success of the Association's services;

➲ approves the policies of the Association;

➲ approves the Association's annual budget and assess the Association's financial performance in relation to the budget at least twice a year;

➲ is responsible for the financial health of the Association and its development fund activities, i.e., setting members fees, getting sponsors for its programs, and other fundraising activities to support its programs and services.

➲ promulgates the hiring policies for the Secretariat Staff and reviews the performance of the employees.

➲ sets and annually reviews the overall compensation structure, and ensure that commensurate compensation is paid to all its employees and establishes policies on employee medical, retirement, vacation, and sick leave, as appropriate.

➲ approves written policies and procedures governing the work and actions of the Association's employees.

➲ ensures that there is an internal review of the Association's compliance with known existing legal, regulatory, and financial reporting requirements.

➲ periodically assesses the need for security of its premises and staff such as insurance coverage in light of the nature and extent of the Association's activities and its financial capacity.

"One of my strength is 'vision.' I also have a penchant for risk. This company would have been bankrupt if it was I on my own. The experience from all my boards has tempered risk and has been a great reality."

--Jeff Cullen
President, Rodair Int'l Ltd

GOVERNANCE FACTS

➲ A study of the 100 largest emerging market companies by Credit Lyonnais Securities Asia (CLSA) in 2001 showed that companies with the best corporate governance in each of a large number of emerging market countries had eight percentage points higher measures of EVA (economic value added) than firms in their country average.

➲ A Harvard/Wharton team also found that U.S.-based firms with better governance have faster sales growth and were more profitable that their peers.

➲ An ABN/AMRO study showed that Brazilian firms with above-average corporate governance had ROEs that were 45% higher and net margins that were 76% higher than those with below average governance practices.

Source: www.ifc.org

CORRUPTION

Different Corruption Practices

While all such acts involve the use of public office for private gains (a customary definition) they vary in nature. They may be of three types:

1. Routine corruption. Private operators pay bribes to obtain a normal or hastened completion of customs operations.
2. Fraudulent corruption. Operators to pay less tax than due or not tax at all, by not accomplishing properly the customs clearance process. They pay bribes to buy customs officers' blind eye or their active co-operation.
3. Criminal corruption. Operators pay bribes to permit a totally illegal, lucrative operation. (drug trafficking, abuse of export of promotion scheme, etc.).

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ADVISORY BOARD

The Value of an Advisory Board

The advisory board has two facets. It is part of the CEO's formal network and it is a discipline for the decision-making that forces a degree of formality and rigour that may be less developed in companies without a board.

Below are six steps to setting up an advisory :

***Step 1.* Answer the question "How can an advisory board add value to me and my firm as we undertake rapid growth?"** The main areas identified by CEOs requiring advice and assistance include strategy setting, management issues, sounding board, new business contacts, CEO mentoring, new ideas and business intelligence.
***Step 2.* Identify the type of advisors needed and their roles.** Ensure adequate diversity in demographics, functional and industry experience, large and small company experience, and the mix of advisors is appropriate for the purpose (s) identified. Finally, establish the criterion in for selecting advisors.
***Step 3.* Perform due diligence on a short list of potential advisors**. Let business associates, customers, suppliers and service providers such as lawyers and accountants know that you are looking for advisors with certain attributes and experience.
***Step 4.* Recruit advisors.** Test for fit against the proposed mandate of the board.
Step 5. Brief each advisor about his or her role and responsibilities. Set a clear expectations around what you see as a CEO will do and what to expect from each individual advisor, as well as the board as a whole.
***Step 6.* Prepare for and hold the first meeting**. Include time on the agenda for a review of the historical and current status of the firm, critical issues and brainstorming. The first meeting is about taking a group of advisors and building as advisory team.

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

Why CEOs Have Advisory Boards

⇨ Getting advice from others who may know more than the CEO on specific issues.

⇨ Strengthening key relationships with others who have a direct stake in the firm, such as major suppliers or customers.

⇨ Gaining experience with an external group that provides an oversight function.

⇨ Training more formal governance structure such as board of directors.

⇨ Getting an independent point of view in a 'non threatening' environment from individuals who may be more willing to offer criticism.

⇨ Attracting potential investors through demonstrating good governance practices.

CORRUPTION

ADB Bars 40 Firms, 33 People Due to Corruption in 2005

The Asian Development Bank (ADB) barred 40 firms and 33 individuals last year as a result of its corruption investigations, according to a new report by ADB's Integrity Division. This makes a total of nearly 250 firms and individuals banned from working for ADB since it began investigating corruption allegations in 1998.

"ADB will not tolerate corruption in ADB-financed projects or its staff," says ADB Auditor General Peter Pedersen. "The measures taken against these firms and individuals illustrate our commitment to fully investigating allegations of corruption and taking action against those who violate the ADB Anti-Corruption Policy."

The Integrity Division, a part of ADB's Office of the Auditor General, which is tasked with enforcing the bank's Anti-Corruption Policy, received 199 complaints last year. This was a 44% increase in the number received in 2004 and resulted in 102 investigations.

According to the report, 72% of the cases investigated involved ADB-financed activities, while 15% involved ADB staff. The remainder involved other parties. The firms that were barred as a result of the investigations are prohibited from doing business with ADB for up to seven years.