

World Bank/OECD Global Corporate Governance Forum

Remarks of

Joanna R. Shelton
Deputy Secretary-General
Organisation for Economic Co-operation and Development

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The World Bank and the OECD have a long tradition of co-operation. It was in this spirit that the heads of our two organisations, Jim Wolfensohn and Donald Johnston, signed a memorandum of understanding in June of this year to join forces in the increasingly important area of corporate governance.

We believe this initiative has the potential to strengthen the institutional and regulatory underpinning of economies around the world, for the benefit not only of individual national economies but of the global economic and financial system more broadly. The public/private partnership embodied by this Forum will allow policymakers and private sector participants in countries around the world to learn from the experiences of their counterparts in other countries - drawing upon their successes and avoiding some of their mistakes.

In my remarks this morning, I would like to give an overview of the OECD Principles of Corporate Governance and their purpose; outline why we believe that good corporate governance is so important for the long-term sustainable growth of economies around the world; and then touch on the role the OECD envisions playing in co-operation with the World Bank.

OECD Principles of Corporate Governance

I had the honour of chairing the Task Force that developed the OECD Principles of Corporate Governance, which were agreed by our Ministers in May. The Task Force consisted of representatives of all 29 OECD Member countries and key international organisations, including the World Bank, which participated actively in our work. The Task Force also included a wide array of private sector representatives and labour organisations and benefited greatly from the input provided by representatives from a number of non-OECD countries. We posted successive drafts of the Principles on the internet, giving the broader public an opportunity to follow our work and submit comments. I believe that the inclusive and open approach followed throughout the process contributed strongly to making the Principles a relevant and widely usable document.

But an equally important factor explaining why the Principles have been well-received is the very nature of the Principles themselves. The Principles represent the first intergovernmental accord on the common elements of good corporate governance. Their main utility is to serve as a reference point for countries to evaluate their laws, regulations and practices in this area, taking

into account national differences and differing market structures and traditions. The Principles are non-binding. They recognise that there is no single model of good corporate governance, although they do stress the importance of fairness, transparency, and accountability in whatever model is used. Finally, the Principles do not pretend to constitute "best practice" or to provide detailed prescriptions for national legislation. On the contrary, the Principles are designed to be sufficiently basic that they can be adapted to differing national circumstances.

What the Principles do contain is a wealth of experience and the basic building blocks that governments and market participants around the world agree constitute the necessary foundation for building good corporate governance systems. As the world's economies become more and more interdependent, this openness to an international exchange of experiences is vital for building a healthier international economy and financial system. Because the OECD Principles can serve as a common point of reference, I believe that they will greatly facilitate constructive dialogue among policy-makers, corporations, investors and other stakeholders in OECD and non-OECD countries alike.

But principles, guidelines and codes can only take us so far. They are certainly a useful part of any tool-kit, but their adaptation and implementation requires action. It requires involvement by all those concerned – both public policy-makers and private market players. I view this Forum as an important force in this respect – a catalyst that will develop, in consultation with interested parties in countries around the world, a range of activities and instruments in the effort to assist in governance reform at all levels.

Importance of Corporate Governance

But let us step back and ask, why is corporate governance important? It may be something relevant for OECD countries, but is it really important for developing and transition economies? Why should public policy-makers be concerned about an issue that on its face relates to how the private sector organises itself and operates? And why should the private sector in countries around the world take this issue to heart?

The reason is simple. The private sector is playing an increasingly important role world-wide as the basis for wealth generation and job creation. This is as true in developing and transition economies as it is in the most advanced industrial economies. We increasingly rely on corporations to provide job opportunities for our citizens, to generate tax income and to furnish our markets with goods and services at reasonable prices. On a growing scale, we also rely on private institutions to manage our savings and secure our retirement income. The transformation of economies over the past decade from state-directed and centrally controlled systems to ones that are increasingly market-based is truly phenomenal. This shift requires that laws, institutions and practices also evolve to support these economies in our increasingly integrated world.

From this perspective, it becomes evident that good corporate governance goes far beyond the immediate interests of shareholders in any individual company. Good corporate governance is essential at every stage of the investment chain:

- It will facilitate the mobilisation of capital – including domestic capital – for much-needed investment, as savers and investors are assured that their hard-earned money is properly protected;

- It will ensure that capital is used in the most efficient way, as increased transparency and high disclosure standards make it possible for investors to make informed choices between different investment opportunities; and
- It will contribute to a more efficient operation of corporations, as improved oversight and lines of accountability within the company are established and well understood.

As soon as we recognise its central role for bringing about investment and for using investment capital wisely and efficiently, we also see that improving corporate governance essentially is about strengthening the capacity for long-term development and stable economic growth. And that is a matter that concerns us all, no matter what country or organisation we come from; and no matter whether we are public or private sector players.

Role of the OECD

What is the OECD's place in all of this? Now that we have developed a set of Principles of Corporate Governance, what is our role in carrying the work further? To answer that question, it is useful to go back to the original, and continuing, role of the OECD. The Organisation for Economic Co-operation and Development was established to help its Members improve their prospects for long-term, sustainable growth and development in a world characterised by constant change and often unforeseeable shocks and challenges. In today's rapidly integrating world, an increasingly important aspect of our core work includes extensive co-operation with non-OECD countries on all of the world's continents. As the recent financial shock that hit first Asia and then other regions showed, all of our economies are bound together increasingly tightly; and the health and well-being of one economy can be substantially affected by the health of other economies. So it is in our collective interest to work together to help put economies around the world on a stronger footing -- OECD and non-OECD countries alike -- so that they are better able to cope with the inevitable stresses and strains that confront all countries at one time or another.

The OECD's work with non-OECD countries covers a broad spectrum -- from tax and competition policy to co-operation in agriculture and public administration. For example, our recently established tax centre in Shanghai already has trained 1200 Chinese officials in tax policy and its effective implementation. Similar work in countries as diverse as Russia, Brazil and even APEC is just one example of the broad network of co-operation we have established with countries beyond the OECD membership.

In the area of corporate governance, this co-operation and dialogue is already underway with many countries in Asia, Latin America, Africa and Eastern Europe, often in co-operation with the World Bank and relevant regional development banks. I want to stress that we do not claim to have a model or the answers that fit all corporations or all countries. But what the OECD does offer is the experience -- the successes and the failures -- of its own governments and private sectors, as they have struggled to make their own economies and institutions more capable of meeting the challenges of an increasingly competitive world. We have worked on the issue of corporate governance, in co-operation with the private sector, for a number of years and are prepared to make available to others the experience and expertise that we have developed during this time. That is why we are so pleased to join forces with the World Bank and their highly experienced staff. The Banks' world-wide presence and in-depth knowledge of local

circumstances is an invaluable asset in this context.

As a co-sponsor of this Forum, it is encouraging to see so many participants here today from both the public and private sectors. We look forward to working with all of you within the framework of the World Bank/OECD Global Corporate Governance Forum to strengthen the fabric of economies around the world. This innovative public/private partnership can serve as a useful model for tackling other important challenges ahead. I look forward to our discussion this morning and thank the World Bank for hosting the launch of this very important initiative, which I am convinced will be a great success.