

IMPLICATIONS FOR DEVELOPMENT ASSISTANCE

KEY POINTS

- To help avoid another financial crisis, development assistance to help regional developing economy governments raise corporate governance standards can usefully both encourage market discipline and strengthen relevant regulations.
- In the four years since the crisis, most corporate governance development assistance in East Asia has focused on developing and implementing corporate legislation. Projects to strengthen market forces and reduce the role of relationship based lending are scarcer.
- Promoting corporate governance may be most effectively achieved through technical assistance that fosters long term institutional linkages between counterpart public and private institutions in Australia and developing regional economies.
- Multilateral agencies provide the bulk of corporate governance assistance to East Asian governments. Few bilateral programs apart from Australia's make corporate governance a priority; Australia allocated A\$295 million to governance activities in 2001-02.
- A strong demand exists for ongoing Australian assistance with corporate governance reforms in East Asia. Opportunities for expanding Australian assistance exist in traditional areas of regulatory capacity building and in promoting market forces as a means of disciplining corporate behaviour.

AIDING CORPORATE GOVERNANCE

Strong markets working with sound, well enforced legislation are the best way to help ensure corporations work in society's interests. Hence, while assisting regional governments in drafting and implementing new legislation covering shareholders and creditors is important, if legislation is to work, donors also should help governments reduce barriers to competition in finance and product markets.

Improving Regulations

Relevant development assistance can assist governments in devising new rules to allow unrelated parties to deal confidently with each another, encouraging a move away from relationship based business. First, donors can help build bureaucratic capacity to draft corporate governance legislation based on world best practice. Second, donors can help raise the capacity of bureaucracies and regulators to implement such legislation. In many developing economies, skilled enforcement capacity remains in critical undersupply, often negating the impact of new legislation. Third, assistance can help build mechanisms for conflict resolution to support a rules based business model. This includes developing and improving court operations, arbitration systems and informal debt workout mechanisms. Reducing corruption, including through offering adequate salaries and undertaking audits, also is critical.

Finally, legislation needs to be appropriate to host country conditions, as slowly changing corporate sectors differ markedly from western models. In most of developing East Asia, majority shareholders, often original family owners, dominate decision making, often at the expense of smaller shareholders, making laws protecting minority shareholders a high priority. However, as East Asian corporate owners usually manage the corporation, they can easily obtain information on the firm's behaviour and influence how the firm is run. This makes rules addressing the so-called principal agent problem, common in widely held developed economy corporates, a much lower priority.

East Asian and western business models also differ in the role of banks and state owned enterprises. East Asian banks often are closely associated with corporates but at least before the crisis often did not closely scrutinise corporates borrowers. Hence sound banking regulation is an urgent short and longer term priority. In many East Asian economies, particularly China and Vietnam, corporate governance reform depends on state enterprise and bank reform and privatisation.

Improving Market Forces

Development assistance to promote market development and competition complements regulatory and legal reform. For example, to work, new bankruptcy laws need creditors with strong incentives to recover debts on behalf of their shareholders. Such assistance can include enhancing product market competition through trade and foreign investment policy reform, developing competition policies and enforcement, assisting governments to sell assets acquired after the financial crisis to new owners and developing share and bond markets.

LESSONS FROM CORPORATE GOVERNANCE ASSISTANCE

Since the crisis, donors have learnt several key lessons from assisting regional governments with corporate governance reforms. (Donors' corporate governance programs are described in more detail in the Appendix to this chapter.)

Does One Size Fit All?

Each economy faces different initial conditions, so the same set of legislation and projects is unlikely to serve each economy equally well (Allen, 2000). Nevertheless, the broad aims of corporate governance reform apply to most regional economies, especially the need for business based on rules rather than relationships. When designing projects, donors may need to examine claims about exceptions as these can be a pretext vested interests use to resist reforms that may adversely affect them.

Recipient Government Support

While many East Asian governments want to improve corporate behaviour and curb the abuse of corporate power, the extent of commitment to corporate governance reform is uneven across the region. For example, in 2000, the Korean Government introduced many measures to improve corporate transparency and shareholder representation, and the Chinese Government passed similar measures in 2000/01. While some regional governments still mainly blame international speculators for the crisis, others recognise core weaknesses in their corporate and financial sectors contributed significantly.¹ Participants in the OECD/World Bank Asian Corporate Governance Roundtable conferences report increasing commitment to corporate governance reform in 1998-2001, with many governments favouring technical assistance over policy advice (Ingram, 2001; De Fontenay, 2001).

In extreme cases, lack of official support may jeopardise projects once donor assistance ceases. In Indonesia, Thailand and to a lesser extent elsewhere in South East Asia, opposition to privatisation and asset sales remains strong. Many interests seek to limit the losses of large, well connected conglomerates through debt restructuring and resist increased foreign ownership, limiting efforts to break down dominant relationships and increase market competition (Markels et al., 2001). Nevertheless, most corporate regulatory agencies welcome technical assistance and frequently request it.

Recipient Government Ownership

Recipient governments must 'own' projects for them to succeed, though donors need to oversee fiscal issues to ensure project effectiveness. This requires corporate governance project donors to involve government, regulators and the private sector early in the project cycle (Fischer, 2001;

¹ For example, in May 2001, the chairman of a regulatory agency attributed the crisis to currency speculation only in a speech to a domestic audience; the English version of the speech mentioned corporate governance (Srinivasan, 2001). On the other hand, the Korean Ministry of Finance and the Economy's June 2001 economic update stated: "The fundamental causes of Korea's economic troubles can be traced to structural weaknesses and pervasive moral hazard from lack of market discipline" (De Fontenay, 2001).

Nestor, 2001). At the Second OECD/World Bank Asian Corporate Governance Roundtable, delegates from India, China, Philippines and Thailand indicated new laws creating independent audit committees had not been discussed with relevant authorities in the recipient countries.

Avoiding Duplication

Overlapping responsibility for the same regulations weakens enforcement and can allow firms and individuals to escape regulation. Hence, newly drafted regulations must define lines of responsibility for implementing them. For example, in Indonesia, the Ministry for State Owned Enterprises made state banks adopt audit committees, undermining Bank Indonesia's authority in regulating banks (Cooper, 2001). Similarly, at least two Indonesian director organisations, the Corporate Leadership Development Institute and the National Institute of Directors and Commissioners, seek international funding to train directors, possibly causing duplication.

Training and Capacity Building

Regulating corporate behaviour and supporting market development is highly technical; it requires regulators with considerable skill and experience. Not surprisingly, recipient economies favour projects offering sustained transmission of skills to local staff, rather than short term, 'fly in, fly out' consultancies by foreign experts; the latter tend to produce only a short term impact on behaviour (Cooper, 2001). Scholarships which donors allocate on a merit basis to fund relevant officials' participation in specially designed, long term training can make a significant contribution under the right circumstances. Technical assistance and training should include the preparation of laws, regulations and standards and target broader understanding of good corporate and economic governance, its implementation and promotion to the business community (De Fontenay, 2001).

Multi-faceted Approach

The corporate environment is multi-faceted, so effective projects cannot function in isolation and if possible, should seek related policy objectives. For example, efforts to develop securities markets could assist in developing regulations, support privatising state pension funds and encourage establishing credit ratings agencies. Some donors advise starting several small projects at once, then selectively adding resources to projects showing signs of success. In politically fluid environments such as Indonesia, this may reduce risks (Forrester, 2000).

Choice of Consultants

Recipient countries favour direct assistance from counterpart agencies rather than generalist consultants. Where possible, bilateral program technical assistance should provide partners from similar agencies. For example, pairing the Australian Securities and Investment Commission with Indonesia's Bapepam produced good outcomes (Aziz, 2000). Many regulators provide the main source of Australian expertise in relevant areas, so competitive tenders to allocate aid funding may

waste host and donor regulators' time and effort and possibly undermine project support. On the other hand, government procurement guidelines require credible alternative providers be given the chance to provide assistance. Managing this trade-off requires care.

Institutional Provider Capacity

Some private sector institutions, including institutes of directors or accountants and even public regulators report difficulties in providing the resources for projects that aid agencies request. In fields of expertise where only one provider exists, aid agencies could support the capacity of these organisations to contribute. For example, the Australian Institute of Directors finds it difficult to meet the needs of its domestic constituents, as well as requests from aid agencies and fledgling institutes of directors around the region, particularly in providing qualified teachers to lead courses both abroad and at home (Hall, 2002). Public sector regulators face similar human resource constraints. Again, complying with government procurement guidelines means managing trade-offs is important.

Encouraging Self Assessment

Once corporate governance regulations are in place, cost effective procedures for self assessment assist compliance. For example, PricewaterhouseCoopers designed a questionnaire for Indonesian corporate executives and directors to assess their corporate governance standards (Cooper, 2001). Other types of self testing include compliance with listing rules, accounting and auditing standards.

Private Sector Involvement

Private sector support is key to implementing corporate governance reforms. Much of East Asia's private sector is unwilling to participate in or indifferent to corporate governance reforms, undermining official efforts. To increase commitment, business should participate in designing and implementing corporate governance projects. However, many institutions, including the Asian Corporate Governance Roundtable, have only minimal private sector input (Young-Ho Shin, 2001). Donors could benefit from involving corporate directors, managers and shareholders in project designs with the aim of persuading them improving corporate governance is in their long term interest. This way, donors gradually may improve outside creditor and shareholder treatment (De Fontenay, 2001).

Problems occur when projects do not consult the private sector in matters affecting them. For example, the International Monetary Fund's Letter of Intent with the Government of Indonesia required Indonesian company boards to appoint independent directors; while some local companies pushed this reform, others did not feel consulted and expressed concerns after the legislation was implemented. Compliance with this directive remains low. (See Chapter 11 – *Indonesia*.)

Conditionality

Conditionality provisions safeguard donors; recipients must achieve previously agreed policy outcomes during assistance projects. Multilateral agencies, including the World Bank and International Monetary Fund, increasingly apply structural conditions and benchmarks when providing assistance.² Structural benchmarks can highlight stages towards development, if precisely mapping progress quantitatively or qualitatively is difficult.

However, without recipient government ownership, conditionality is difficult and even counterproductive. Unless authorities accept policies as their own, conditionality can antagonise recipients and weaken the focus on what is essential and achievable (International Monetary Fund, 2001). Also, excessive structural conditionality works against the constructive partnerships that underlie Global Corporate Governance Forum principles. Conditionality also may require excessive policy changes that recipient economies cannot meet, either in terms of political support and technical know-how.³

Selectivity

Donors need to assess in which countries and sectors projects are most likely to be most effective. Donors should not underestimate the importance of undertaking due diligence in understanding the broad environment in which projects will operate and identifying specific obstacles to their implementation.

Time Horizons

Shifting corporate behaviour from reliance on relationships to a more arm's length rules based system will take time and trust. Donors should be prepared to fund medium to long term projects, including protocols for monitoring success using structural benchmarking. Follow up is critical.

WHEN THE MONEY RUNS OUT

Stakeholders in developing East Asian economies fear some corporate governance initiatives could cease when donor funding finishes. Between 2000 and 2001, focus groups of senior government officials involved in Indonesian and Vietnamese corporate governance, interviewed during the ACORN project, reported that ending donor funding could stall corporate governance reforms. Of 22 respondents from the Philippines, 14 believed the Philippine Government was not ready to fund key projects; furthermore, the political climate could move the Government focus from corporate governance to other areas of priority. Senior Thai and Republic of Korea officials also indicated progress in corporate governance would be reversed if donors' financial and technical assistance ended. By contrast, Malaysian participants believed the private sector would continue improving corporate governance, even without funding, as this would lower funding costs.

Source: De Fontenay, 2001.

² The use of structural conditions increased significantly in 1997-99 from 1987-1990.

³ On 12 July 2001, a World Bank and IMF forum discussing conditionality recommended the IMF replace, where possible, the word 'condition' with 'focus'.

Bilateral versus Multilateral Assistance

Bilateral and multilateral programs offer different advantages in delivering corporate governance assistance. For recipients, bilateral programs offer access to particular expertise and direct contact with a complete system of corporate governance. Bilateral donors can muster their own resources and offer experience in relevant fields, such as commercial law, judicial systems, accounting standards, auditing and regulation and supervision of financial institutions and securities markets. Bilateral donors also can be more flexible and responsive than their multilateral counterparts. However, political constraints may hamper bilateral development assistance. By contrast, multilateral programs can better ensure recipients access international standards in corporate governance reforms. Multilateral programs can promote standardisation, supporting greater regional economic integration. Multilateral agencies can draw on member countries' experience to derive best practice, in some cases are less likely to be accused of national interests or hidden agendas and may more easily criticise a recipient's practices and policies. International financial institutions also are well placed to leverage their recommendations with financial support programs.

Multilateral programs also have some disadvantages. First, they may promote a 'one size fits all' approach to reform, reducing recipient government ownership and weakening project effectiveness (Jordan, 1999; Allen, 2000). Several economies criticised IMF standby programs following the financial crisis for this approach. Second, whilst multilateral agencies can air major issues or offer blueprints for change, with some exceptions, they are less experienced in implementing their recommendations. Country officials and technical assistance available under bilateral programs may possess more relevant expertise in training local officials. Finally, some developing country officials regard some multilateral agencies as having an agenda not in keeping with their objectives.

Coordination

Recipient economies are likely to require both multilateral and bilateral assistance, increasing the need for coordination. With many donor programs and conferences on corporate governance in East Asia since the crisis, serious duplication of effort and conflicting policy recommendations for individual countries is a risk. The World Bank established the Global Corporate Governance Forum to coordinate various official and private corporate governance initiatives, but the task is proving difficult. Regional coordination may be easier to achieve, but still is lacking. Public agency and private stakeholder coordination also could improve.

POSSIBLE AREAS FOR AUSTRALIAN ASSISTANCE

Australia is well placed technically and geographically to promote corporate governance in South East Asia and already contributes significantly to achieving this objective. However, many other opportunities exist, especially in promoting market forces. Naturally any donor must prioritise amongst these broad areas of assistance, carefully weighing trade-offs and undertaking due diligence as required.

IMPROVING REGULATIONS

Many opportunities exist to assist in drafting and implementing new laws and regulations to promote good corporate governance.

Drafting and Reviewing Legislation

Australia can help draft legislation for rules based business. Progressively, Indonesia, Vietnam and Thailand are developing legislation to encourage international standards of corporate governance in private and government owned corporations. The Vietnamese Government needs assistance in drafting company laws, securities market legislation and listing rules and the Philippine Government needs help to review the company code.

Australian regulatory agencies, like the Australian Securities and Investment Commission, the Australian Competition and Consumer Commission and the Commonwealth Attorney General's Department already provide support for this type of activity. In 1998, the AusAID funded APEC economic governance capacity building survey identified ample scope for bilateral support in business law reform. Australia's private sector also can assist in developing accounting and auditing standards. Numerous Australian trained accountants work in East Asia, creating excellent links with senior government officials and major accounting bodies and providing a strong basis for contributing in this area.

Securities market regulation and training

Securities market development requires sound regulatory support, including best practice regulations and more importantly the capacity to implement these. Increasingly, South East Asian economies favour educational and training programs with partners in counterpart agencies in donor countries to develop their securities markets. Although Australian development assistance already covers this activity, many feel Australia should continue to build this form of assistance.

Currently, the Australian Securities and Investment Commission and the Australian Stock Exchange provide educational programs for senior officials from Indonesia's Bapepam, the Stock Exchange Commission in the Philippines, the Kuala Lumpur Stock Exchange and the Vietnam Stock Exchange. Both program participants and the Australian institution members feel they benefit from interaction with counterpart organisations (Aziz, 2000; Cataran, 2001; Garcia, 2001).

Building Implementation Capacity

In many developing economies, reasonable corporate legislation exists but authorities fail to implement it. For example, Indonesian 1995 securities laws follow international best practice, but their poor implementation contributed to the financial crisis. To implement new laws, regulatory agency staff need training on complex aspects of the laws and the power to enforce them. Bapepam reports an ongoing lack of skilled staff able to investigate corporate behaviour for securities law violations. The Indonesian Accountancy Institute also could benefit from support to help educate company accountants and enforce standards.

In the Philippines, the Securities and Exchange Commission reports it needs assistance to investigate listed companies' independent audits and tighten membership requirements. Similarly, the Board of Accountancy needs resources to enforce new accounting standards, while the judiciary needs training to increase case capacity and transparency in implementing new bankruptcy laws.

Thailand's new bankruptcy courts recently have allowed companies to appeal key decisions, drastically slowing case resolution (Chittmittrapap, 2001). This may reflect a need for more training in complex commercial cases. Cases in civil courts face backlogs of six to seven years, suggesting they need extra capacity (Markels et al., 2001).

In many countries, complex laws including those against insider trading, require highly skilled regulators. Aid agencies could boost this capacity as well as mechanisms to empower minority shareholders.

Educational and Training Programs

With regulatory compliance increasing, corporate and financial sector staff also need training in auditing, accounting, directors' duties and financial reporting. Private professional associations often conduct this training but are heavily under-resourced. Also, in many economies, new and more complex laws warrant assistance. Support for these private bodies assists all members equally instead of individual firms. Fostering institutes of directors, accountants and auditors enhances compliance with new laws. Usually, Australian counterpart organisations best provide this assistance through the aid program.

APEC CORPORATE GOVERNANCE SYMPOSIUM A SUCCESS

Following the Asian crisis, APEC Leaders commissioned their Finance Ministers to develop a program to improve corporate governance in the region. In September 1998, the Australian Treasury hosted the first APEC Symposium on Corporate Governance in Sydney. The Australian National APEC Study Centre, Monash University, managed the symposium and AusAID funded it. The Symposium brought together senior business leaders, regulators from ASEAN economies and executives from International Financial Institutions to review corporate governance needs in East Asia. The seminar recommended strategies and identified priorities for APEC Governments in reforming corporate governance. Its report, available at www.apec.org.au, served as a valuable input for the program adopted by APEC Finance Ministers.

Source: Oxley, 2002.

Many emerging East Asian economies are developing codes of good corporate governance; however, implementing them will require considerable resources and technical assistance, especially in developing regional economies. Australia could assist through various organisations, including helping the Australian Institute of Company Directors and Australian Securities and Investment Commission develop country specific programs with local partner agencies.

Australia's capacity in auditing and financial investigation, especially through Australian Securities and Investment Commission and the Australian Federal Police, is well respected. Australia also can provide world class training in risk management and financial investigations for corporate regulators.⁴

Review of Standards and Codes Program

The International Monetary Fund and World Bank encourage other multilateral and bilateral agencies to assist in compiling their Review on Standards and Codes. (See Appendix to this chapter and Chapter 3 – *Regulations*.) Many developing economies have only limited counterpart official capacity to undertake these reviews. Using its experience and World Bank templates, Australia could promote the review process and help Indonesia, Thailand and Vietnam in undertaking their reviews.

Anti-corruption Initiatives

Support for anti-corruption initiatives would increase the capacity of regional governments to effectively enforce regulations. Australia has considerable institutional experience in this area in the New South Wales Independent Commission Against Corruption and the Commonwealth Auditor-General Office. In December 2000, at the Asian Development Bank/OECD Anti-corruption Committee meeting in Seoul, South East Asian delegates recommended setting up organisations similar to the Independent Commission Against Corruption throughout the region. Where such organisations already exist, technical assistance from counterpart Australian institutions could strengthen their effectiveness.

STRENGTHENING MARKETS

Market strengthening activities are as important in improving corporate governance as regulatory reform assistance.

Banking Sector Reform

Banks are corporates' main finance source and could be a major source of corporate scrutiny in East Asia. Closer market scrutiny of banks and their use of depositors' funds could motivate them to discipline corporate clients. Freer domestic and international entry in banking sectors should boost competition for banks meeting capital and prudential standards and increase competition for depositors' funds. Australia developed strong and appropriate prudential standards after it freed entry to its banking sector; it is well placed to assist developing regional economies undertaking this process.

⁴ Another niche area could include setting up a regional facility to train financial investigators for corporate regulators. This could be modelled along similar lines to that developed by Common Markets for Eastern Africa, COMESA, and the Kenyan School of Monetary Affairs for the African region.

Developing Alternatives to Bank Financing

In developing Asia, banks virtually monopolise corporate finance provision, reducing corporate exposure to market scrutiny. Many individual and institutional investors are wary of entering non transparent share markets where shareholder protection is inadequate. Poor bank risk assessments has produced high levels of non performing loans. Australia could help develop alternative avenues for corporate financing, including share and bond markets. Assistance could comprise several strands.

Pension fund privatisation and reform

Many regional securities markets lack depth and liquidity, inhibiting corporate scrutiny and investment growth. Furthermore many state owned pension funds are forced to hold mainly government securities, denying share markets a major source of savings. Allowing greater freedom to invest in local shares and delegating management of some of these funds to local and foreign private funds managers can increase share market depth, develop the institutional investor community and promote greater shareholder activism. Australia's highly developed community of institutional investors and fund managers have relevant expertise and experience to assist with this process.

Privatising state owned enterprises

Privatising state owned enterprises via initial public offers would increase share market depth and liquidity, encouraging other local corporates to raise equity rather than rely on bank lending. Australia's recent privatisation experiences means it is well equipped to assist multilateral agencies like the Asian Development Bank and World Bank identify and prepare potential assets for sale, and advise on competitive tendering procedures. With its developed base of underwriters, Australia also has valuable expertise in preparing initial public offers of key assets.

Slowing state owned enterprise reform in Vietnam, Indonesia and Philippines gives donor agencies more time to improve corporate governance standards in these firms before their sale. Australian consultants could complement the Asian Development Bank's state owned enterprise reform programs in Indonesia and Vietnam in regulatory reform and risk management; these are areas where other donors have provided little assistance.

Streamlining equitisation

Many developing economies impose relatively strict listing conditions on companies, including requiring a large minimum initial public offer. Australia could help regulators review these measures, fast-tracking many companies' entry into the equity market, boosting its size and depth.

Developing trading systems

The Australian Stock Exchange was the first stock exchange in the world to demutualise and list on its own exchange. It also has one the most advanced computerised trading systems in the world. The Australian Stock Exchange has already provided advice on demutualising to the Philippine exchange. The technical assistance needed to adopt computerised trading system technologies, including from Australian companies such as Computershare, would be valued by developing East Asian exchanges. This would help increase their appeal as a source of finance.

Market Access Measures

Improving market access will boost the competitive pressure firms face. Licences, preferential contracting and other measures favouring well connected incumbents and trade restrictions still limit competition. Australian assistance in establishing and training regional competition and trade authorities to reduce impediments to competition would be valued.

Antitrust Laws

Many regional developing economies recognise they need to establish effective antitrust legislation and regulatory agencies able to enforce this. For example, Indonesia is establishing an Anti-monopoly Commission to support new antitrust legislation, although lack of resources hampers progress. The Philippines and Vietnam are yet to establish similar laws or agencies. Australia's highly regarded Australian Competition and Consumer Commission already assists several developing East Asian economies boost the effectiveness of their competition policies, reducing barriers to new firms entering markets and improving corporate discipline. Increased assistance in this area would be valued by several developing regional economies.

Streamlining Foreign Investment

Direct investment by foreign companies provides an important source of competition in financial and other service sectors, but many restrictions limit their impact in improving corporate governance. Restrictions on foreign majority equity ownership, limits on distribution and branching networks and outright bans on foreign entry into some protected sectors persist throughout East Asia. Assistance for regional governments wishing to review and reform foreign investment barriers would be a valuable means of boosting competitive pressure on corporates.

Ratings/Benchmarking

Ratings agencies provide investors with graded assessments of companies seeking direct financing and encourage private corporations to assess their financial condition when seeking funds. Since the financial crisis, strong demand for ratings information, including on corporate governance standards, resulted in McKinsey's Survey of Investor Opinion and the Asian Corporate Governance Association's Rating of Good Corporate Governance. Although Moody's and Standard and Poor's remain well placed to provide these services, in less developed markets including Vietnam, a partnership between a public and private ratings provider could be beneficial.

DEVELOPING CIVIL SOCIETY

Many non government institutions play an important role in boosting corporate governance. Professional bodies, consumer and shareholder groups and the financial media can discipline firm behaviour, often identifying breaches of regulations or poor financial performance before regulators. As part of programs to foster civil society and democratic institutions, development assistance can usefully foster such institutions, in tandem with helping strengthen corporates' regulatory and market environments.

Developing an Active Media

An independent and competitive media can monitor and expose poor corporate governance; state and conglomerate controlled media and foreign media restrictions can weaken the media's capacity to scrutinise corporate behaviour. Australia's aid program already contributes to training journalists to support democratic development; assistance for financial media in their role as corporate watchdogs and protectors of minority shareholders' interests also would make a useful contribution and is worth some consideration.

Private NGO Activity

In many East Asian economies, consumer and shareholder groups, institutes of directors and professional peak bodies are taking the lead in educating their members about new corporate governance and accounting regulations and standards. Institutes of directors and associations of accountants and directors are important in advocating and implementing corporate governance reforms and significantly influence the quality of accounting standards and member compliance (De Fontenay, 2001).

Development assistance programs to support such groups' training efforts, preferably in conjunction with counter-part institutions in Australia, are highly effective. In Thailand and Indonesia, the Australian Institute of Company Directors already helps local institutes of directors to train local board members; in the case of Thailand with World Bank financing.

Consumer and Shareholder Activism

Consumer and shareholder activism provides another important means to increase the scrutiny of corporations. In many countries, consumer groups watch for collusive or other non-competitive behaviour, assisting regulators. Increasing shareholder activism and education is important, with all OECD countries prioritising shareholder and general public education on corporate governance issues (Nestor, 2001).

The Australian Securities and Investment Commission has attempted to raise shareholder and general public awareness of corporate and financial institution governance issues. The Thai Securities and Exchange Commission, BAPEPAM and the Philippines Securities and Exchange Commission have requested Australian Securities and Investment Commission assistance in this task. Indonesia has no public education projects on corporate governance issues.

IMPLICATIONS

Australia's strong regulatory and market framework, credible institutions and respected private legal and accounting professionals make it a natural partner for regional authorities attempting to boost corporate governance standards. Australian development assistance already contributes significantly to bilateral and multilateral development bank programs to assist regional governments strengthen corporate governance. However, resources permitting, scope exists to expand this assistance to support regulatory development and market strengthening initiatives, particularly institutional links between major Australian public and private institutions active in encouraging good corporate governance.

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APPENDIX

THE CURRENT AID AGENDA

Since the Asian crisis, bilateral and multilateral aid agencies increasingly contribute to corporate governance projects, to strengthen rules based business environment and allow a return to robust growth. However, some governments and regulators are yet to draft necessary legislation to support a rules based framework; other governments are more advanced on legislation but need to build capacity to implement it. Furthermore, many governments require assistance to sell or restructure large amounts of non performing loans their banks hold. Frustratingly, in several regional economies, corporate and government transparency outcomes are yet to materially improve, suggesting more effort is needed in these areas.⁵

Development assistance programs could usefully promote market pressures, increasing incentives for complying with new rules of doing business especially in finance markets where entrenched relationships dominate.

Multilateral Programs

Multilateral programs increasingly recognise the importance of patterns of ownership and control in driving corporate behaviour. Financial markets and competition policies stress competition drives firms to comply with new rules for doing business and acknowledge that overcoming dominant relationships will take time.

World Bank

In 1998, under the Financial Stability Forum, the International Monetary Fund and World Bank started the Review of Standards and Codes for all members. The World Bank assumed responsibility for reviewing member countries' corporate governance standards, accounting, auditing and securities regulations standards. Malaysia and Philippines have completed corporate governance modules under this review and Thailand is in the process of undertaking one.

In June 1999, the World Bank Group and the OECD initiated the Global Corporate Governance Forum to design and implement reforms for improving standards of corporate governance; since then the forum has held several major conferences for regional regulators (World Bank, 1999; De Fontenay, 2001).

⁵ In 1999, a survey of 1 200 foreign executives working in Asia rated transparency as worsening in 10 out of 11 Asian countries. Only Indonesia improved, although it still rated among the most opaque (De Fontenay, 2001).

International Monetary Fund

The International Monetary Fund cooperates with the World Bank on the Review of Standards and Codes and the Global Corporate Governance Forum. It also assists in strengthening corporate governance standards as part of its post-crisis programs for Indonesia, the Republic of Korea and Thailand. For example, the Fund's January 2000 Letter of Intent for Indonesia detailed corporate governance initiatives involving the corporate governance institutional framework, company registry, accountability, disclosure, enforcement and oversight.

Asian Development Bank

Since 1993, the Asian Development Bank has supported strengthening corporate governance, especially in China (Asian Development Bank, 1999; 2000). Since the crisis, technical assistance includes Indonesia, the Republic of Korea, Malaysia, Philippines and Thailand. Its program includes regional workshops and seminars and the *Recommendations for Corporate Governance* for the Asian members of APEC. Its 2000 *Study of Corporate Governance in Selected Developing Member Countries*, consisted of detailed studies on corporate governance in the crisis affected economies of the Republic of Korea, Malaysia, the Philippines, Indonesia and Thailand emphasising the links between competition and corporate governance (Myoung-Ho Shin, 2001). In Indonesia, the Bank established the National Committee for Corporate Governance and assisted the Jakarta Stock Exchange (Cooper, 2001).

International Finance Corporation

Soon after the financial crisis, the International Finance Corporation developed a governance checklist for firms, including guidelines and training for the directors and listing requirements. Most of its corporate governance activities, including liaison with the Global Corporate Governance Forum and private groups are conducted within a Corporate Governance Unit.

Organisation for Economic Cooperation and Development, OECD

In 1998, the OECD established an Ad-hoc Task Force on Corporate Governance to develop a set of non-binding principles to improve the legal, institutional and regulatory framework for corporate governance (Nestor, 2001). It also supports stock exchanges, investors, corporations and other parties that contribute to improving corporate governance (OECD, 1999). In 1999, the OECD and World Bank commenced Regional Roundtables on Corporate Governance to promote regional participation in four regions, including East Asia.

Asia Pacific Economic Cooperation, APEC

In 1998, APEC Finance Ministers started the Initiative on Corporate Governance, led by Australia, Malaysia, the United States, the World Bank and the Asian Development Bank. In 2001, member Finance Ministers commenced a policy dialogue on company accounting and financial reporting, culminating in September 2001 in *Strengthening Corporate Governance in the APEC Region*. Related APEC initiatives include the Financial Regulators Training Initiative, APEC's work on competition and regulatory reform and projects in legal infrastructure development and institutional and capacity building to strengthen markets (APEC, 2000).

Other organisations

Various other international organisations, including the Basel Committee on Banking Supervision and the International Organization of Securities Commissions refine international best practice standards in their respective areas and promote adoption of these standards.

NON GOVERNMENT AID ASSISTANCE

Many non government national and international organisations promote corporate governance, including by cooperating with bilateral donors and international institutions. For example, in 1995, major US pension funds established the International Corporate Governance Network, to provide a network for the exchange of views and information about corporate governance issues internationally and for the development of corporate governance guidelines (www.icgn.org). In 1999, the Commonwealth Association for Corporate Governance issued Principles for Corporate Governance in the Commonwealth. The International Institute for Corporate Governance, part of the Yale School of Management, researches corporate governance, disseminates information on international best practice and provides advice and teaching.

Other international groups include the Asian Institute of Management for Corporate Responsibility and the Centre for International Private Enterprise which provides a primary source of information on efforts to promote economic reform, private enterprise, and democratic consolidation (www.cipe.org). Also most East Asian countries have national associations of company directors, accounting and auditing societies or legal groups which are active in promoting improved corporate governance.

Source: De Fontenay, 2001.

Bilateral Programs

Bilateral programs complement the multilateral corporate governance agenda. However, few donor projects fall within the corporate sector.

United States

In 2002, the United States Agency for International Development, USAID, supports economic governance reform programs, including through projects increasing competition, transparency and accountability in capital markets and other financial sector institutions in Asia.

United Kingdom

The UK development assistance program pays little attention to corporate governance although a new technical assistance facility to raise standards and codes related to corporate governance is planned (United Kingdom Department for International Development, 2000).

Germany

Germany's development assistance program aims to boost the private sector by promoting competition and a reliable legal system. Germany's program with Vietnam aims to make the legal system more reliable, although it does not directly refer to corporate governance (German Federal Ministry for Cooperation and Development, 2001).

Japan

Japan does not emphasise corporate governance as a development priority; however, it is involved in financial sector reform in economies including Indonesia.

Canada

While Canada includes private sector development in its development assistance program, corporate governance is not specifically mentioned. However, its program includes financial sector reform in India and business administration training in several East Asian countries (CIDA, 2000).

Australia

Australia's development assistance gives significant attention to improving governance. In Indonesia, around 12 per cent of sectoral expenditures are on governance matters, including corporate governance. For example, AusAID's Technical Assistance Management Fund provides A\$75 million to support economic governance capacity building in Indonesia. In the Philippines, the Governance Facility Program provides A\$25 million for corporate and public governance initiatives (Srinivasan, 2001). In China, the Governance Facility Program provides A\$20 million to assist in the transition to a market based economy.

