Organisation for Economic Co-operation and Development
In Co-operation with The World Bank Group

Opening address by

Mr. Seiichi Kondo,
Deputy Secretary-General
Organisation for Economic Co-operation and Development

The Latin American Corporate Governance Roundtable
26-28 April, 2000, The São Paulo Stock Exchange,
São Paulo, Brazil

Co-hosted by:
The São Paulo Stock Exchange

With the support of:
The Brazilian Securities and Exchange Commission
The Brazilian Institute of Corporate Governance (IBGC)
and
The World Bank / OECD Global Corporate Governance Forum

First Meeting of the Latin American Corporate Governance Roundtable

Opening address by

Mr. Seiichi Kondo,
Deputy Secretary-General
Organisation for Economic Co-operation and Development

Sao Paulo, Brazil, 26 April 2000

Ladies and Gentlemen;

It is a great honour for me to address this first meeting of the Latin American Corporate Governance Roundtable. The presence of so many distinguished experts from across the region, from OECD countries and from various international organisations attests to the importance of the issues that we are here to discuss. It also shows a commitment to embark on a constructive policy-dialogue and a fruitful exchange of experiences. Not only between government officials, but also representatives from the business community, labour organisations and civil society.

Developing better corporate governance is a process and changes do not take place over night. It is therefore important to underline that this gathering is not a one-off event. This meeting marks the beginning of a series of Roundtable meetings dedicated to policy-dialogue. A dialogue that will improve the understanding of present corporate governance practices, inform about ongoing initiatives and – ultimately – be able to guide future reform efforts.

At the heart of this process are the regional experts from both the public and private sector. And I would like to extend our sincere gratitude to our Brazilian hosts, the Sao Paulo Stock Exchange, who, together with the Securities and Exchange Commission of Brazil and the Brazilian Institute of Corporate Governance, have been instrumental in the preparations of this event.

Over the last couple of years we have seen an increasing number of both public and private sector initiatives in several Latin American countries. For example, I could point to the best practice codes that have been developed in Mexico and Brazil. The well-attended and highly qualified seminars recently organised by the Securities Commissions in Argentina and Brazil, along with several legislative initiatives, also testify to the increased importance that Latin America now gives to corporate governance. We will hear more about these and other efforts during the meeting.

During the remainder of these remarks, I would like to say a few words about the importance of corporate governance to economic development and the OECD's contribution to improving the corporate governance framework.

Corporate governance can be defined in a dual context. On the one hand it is a set of behavioural relationships through which enterprises are directed and controlled. Organisational know-how, managerial talent and personal incentive are important elements in this web. But it can also be described in terms of the public and private rules that specify the distribution of rights and responsibilities among different participants in an enterprise, such as managers, the board, the shareholders, the employees and other stakeholders. And in order to understand the subject fully, I believe one has to address both the behavioral and regulatory aspects.

I. Why Corporate Governance Matters

So why does corporate governance matter? And why should policy-makers, regulators and the business community care about the quality of corporate governance in their respective countries?

I would like to summarise the response in one single phrase: Corporate governance is a concern for those who want to [build sound domestic equity markets and] make sure that corporations have access to the capital they need for viable investments. The quality of corporate governance will influence how well we will succeed in our ambitions to <u>mobilise</u> capital, to <u>allocate</u> this capital efficiently, and to <u>monitor</u> the use of it in individual companies. That is to say that it influences all stages of the investment process.

At the initial stage, effective rules for property protection, secure methods of ownership registration, and the ability to obtain legal redress are elements that affect the ability to *mobilise* capital.

<u>Second</u>, reliable, accessible and transparent accounts are corporate governance provisions that are essential for making informed decisions about the *allocation* of these resources.

And at the <u>third stage</u>, the procedures for corporate decision-making, the way we distribute authority among company organs and how we design incentive structures will influence the ability to *monitor* the use of the resources that flow to corporations and intermediary investors.

From these examples we can easily conclude that the importance of good corporate governance goes far beyond the interests of shareholders in an individual company. A weak corporate governance framework will impede the entire investment process and, ultimately, the private sector's ability to contribute to social and economic progress. Poor corporate governance will damage the capacity to mobilise savings, it will hinder efficient allocation of capital, and it will prevent proper monitoring of corporate assets. These are the core concerns behind present policy-discussions on corporate governance in OECD countries.

In an international context, good corporate governance is also seen as one building block in the construction of a new international financial architecture aiming to diminish the risk of future financial turmoil. A transparent and effectively monitored market environment for international equity flows enhances the stability of these flows and serves as an early warning system for corporate and financial distress.

To be sure, good corporate governance will only produce its full results in terms of economic and social welfare if other structural reforms are undertaken. Effective competition policy is a key element of improving corporate performance. Market discipline will also have to come from the financial market and the banking sector. Insolvency legislation and effective conditions for market exit are central in this respect. Finally, labour markets need to be flexible in order to allow corporate restructuring and the creation of jobs in new industries. Such flexibility needs to be accompanied by a commitment to an efficient social safety net and by education opportunities that will make it socially acceptable. Corporate governance strategies that take into consideration the concerns of employees and other stakeholders will also play a very important role in contributing to the benefits of change.

II. OECD's Contribution to Improving the Corporate Governance Framework

Let me now turn to the OECD's contribution to improving the corporate governance framework. As you know, the OECD is a multilateral organisation with 29 Member countries, who share the common values of pluralistic democracy and market economy. While full membership is presently restricted to these 29 countries, a large number of additional countries participate in our work on a regular basis. Brazil, for example, is a full member of our Steel Committee, and, like Argentina, it also participates as an observer in a number of other committees. As a matter of fact, policy dialogue with non- member countries is an integral and very natural part of the OECD's work today. It is also one of the most dynamic activities, and when I was appointed Deputy Secretary-General last year I considered it a great privilege to assume responsibility for relations with non-members.

Because of its capacity to translate cutting edge analysis into policy formulation, and its experience with synthesising different approaches through dialogue, the OECD was asked, in the wake of the Asian crisis, to develop a set of Corporate Governance Principles. The purpose was to develop a reference point for countries wanting to improve their corporate governance environment.

The work was carried out by a special Task Force that comprised all OECD countries as well as representatives from multilateral organisations, labour organisations, the business community and civil society. Following a process of wide consultations, which included comments from the general public solicited over the Internet, the Principles were completed and adopted by the OECD in May 1999. The Principles constitute the first inter-governmental initiative on corporate governance and cover five main areas: 1) The rights of shareholders and their protection; 2) The equitable treatment of all categories of shareholders, including minority owners and foreign shareholders; 3) The role of employees and other stakeholders; 4) Timely disclosure and transparency of financial and non-financial information; and 5) The responsibilities of the board of directors. The Principles are non-binding and explicitly written so that they can be adapted to differing national circumstances. In essence they contain the building blocks that governments and market participants around the world agree constitute the necessary foundation for building good corporate governance.

But more important than drafting the Principles is using them. To this effect, the G7, together with the G22 and other international groupings, asked the OECD and the World Bank to work together to improve corporate governance globally. The close co-operation that we now have developed focuses on promoting an inclusive dialogue which will provide practical guidance for reform and identify the proper institutional path to better corporate governance.

It is in this context that we are organising a set of Regional Corporate Governance Roundtables in emerging and transition economies. I am pleased to see in this room so many high-level representatives of companies, financial institutions, regulators and judicial authorities actively supporting this effort in Latin America. I believe it is a very timely initiative. A couple of months ago the Russian Corporate Governance Roundtable had its second meeting, and in a few weeks the Asian Corporate Governance Roundtable will have its second meeting, hosted by the Hong-Kong Stock Exchange.

Having realised the importance of good corporate governance at an early stage, I believe that Latin America can obtain a head start in its efforts to develop strong capital markets for the benefit of industry and society as a whole. The ambition of the Roundtable is to assist and facilitate this process.

Again, let me thank our Brazilian partners for their kind hospitality. Last, but certainly not least, I would like to thank the World Bank and the International Finance Corporation who are our global partners in this important work. Their contribution to this effort cannot be overestimated.

I very much look forward to following the discussion over the next few days, and also the future work of the Latin American Corporate Governance Roundtable.