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

The Third Meeting of the
Latin American Corporate Governance Roundtable

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Opening Remarks

By

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1.

It is a great pleasure to be here, on behalf of the World Bank Group, with such distinguished company to help inaugurate this Third Meeting of the Latin American Corporate Governance Roundtable. At last month's UN Conference on Finance and Development in Monterrey, Secretary Gil stated in his remarks that "Growth is the outcome of millions of independent decisions of people seeking, in a competitive environment, to improve their personal welfare." What you have gathered to discuss here over the next three days – the challenge of improving corporate governance in Latin America and globally – is a key part of influencing the millions of independent decisions that Secretary Gil was talking about in Monterrey. Responding to the challenge of corporate governance means developing creative and effective ways to align the interests of economic actors - entrepreneurs, investors, employees, suppliers, customers and other stakeholders in private companies – in ways that both improve their personal welfare and contribute to economic growth of the society as a whole.

I would like to devote my remarks, first, to congratulate the participants here today, both veterans of the earlier meetings in Sao Paolo and Buenos Aires, and the newcomers, on the impressive work of the Roundtable to date. Then I would like to share with you some observations that my colleagues and I at IFC have on the current stage of evolution of the corporate governance dialogue in the region. And, finally, I will leave you with some friendly suggestions about how those assembled here can take forward the work of the Roundtable in the future.

2.

Since my colleague, Karl Voltaire, helped open the Sao Paulo meeting two years ago, the Roundtable has gone from strength to strength. From the start, an impressive number of participants from throughout the region and beyond have come together and participated actively in both the formal sessions and the follow-on work initiated by the Roundtable. With over 200 present here today, I think that this meeting in Mexico City has attracted the largest and most enthusiastic crowd so far.

But what is really worth highlighting is not the number of participants, but rather the quality and breadth of representation the Roundtable has managed to achieve in so short a time. When you look at the Roundtable's core membership, you find the chiefs of securities commissions, high level representatives of finance ministries, stock exchanges, institutes of directors, company chiefs, key investors, pension fund representatives, and acknowledged experts from throughout the region. The Roundtable is without a doubt the forum of choice for policy makers and practitioners, experts and academics, who recognize the need to improve policy and practice in corporate governance, and who value international and inter-disciplinary collaboration in the effort. OECD's Corporate Affairs Division, which conceived the idea of regional corporate governance roundtables, deserves high praise for providing the ideal vehicle for such valuable and needed collaboration.

It is also extremely encouraging to see how the number of countries participating in the Roundtable has risen steadily. Not only is it exciting to see very many dedicated old friends from earlier meetings who have come all the way from Brazil, Argentina, Peru and Chile, but we are especially pleased to welcome new panelists and participants this year from Colombia, Bolivia, and Venezuela. Of course, each market in Latin America faces a unique set of challenges in the area of corporate governance. But the broadening of national representation in the Roundtable process reflects the recognition that commonalities of legal heritage, economic circumstances, business and investment culture, and increasing economic integration make it essential to discuss and address corporate governance issues on a regional level .

While it would be useful in itself to have an annual meeting of people working on corporate governance, the distinguishing feature of the Roundtable - and what has, in our view made it the forum of choice - is its focus on substantive issues organized along the lines of the OECD Principles of Corporate Governance. The added value of the Roundtable is that it provides a clearly structured framework for dialogue on regional corporate governance reform – a well-thought-out and tested framework that is shared with the OECD countries and the other OECD/World Bank Group Regional Roundtables.

The Latin American Roundtable's inaugural meeting at BOVESPA in Sao Paulo was the first opportunity for policy-makers and others to discuss, analyze and debate the existing state of corporate governance in the region. The Sao Paulo meeting examined the dynamics of corporate governance culture in the region, the strengths and weaknesses of the legal framework and practices, and possible approaches to improving law and practice. The Roundtable's second meeting, at the Bolsa de Comercio in Buenos Aires, began the process of systematically debating the key aspects of corporate governance through the prism of the OECD Principles. The participants in the Buenos Aires meeting focused their attention on shareholder rights and equitable treatment of shareholders, examining such timely issues as exercise of voting rights, derivative actions, shareholder activism, tender offer rules, and treatment of minority shareholders in changes of corporate control.

This year in Mexico, we have a lot to cover – boards of directors, stakeholders, and disclosure and transparency. But if the past is any indication, we will all go home with a better understanding of the challenges, the possible solutions, and the identity of those with whom we can effectively collaborate in the future to meet the challenges.

3.

I must confess that I am particularly looking forward to listening to the panelists on the next session, which will bring together representatives from a number of countries to provide their views on exciting public and private sector initiatives in corporate governance. Latin America is clearly in a period of experimentation. The participants in this Roundtable meeting are people who are not merely watching this from the sidelines. They are the policy makers, practitioners and business leaders who are actually in the thick of things. They know first hand the challenges of initiating and implementing improved standards of governance in the region. We value their views on what strategies seem fruitful and which have been disappointing.

The experiences that the next session's panelists will describe are part of what we at IFC view as just the *first stage* of corporate governance activism in the region. This first stage of examination and response – response from both the public and private sector – was motivated largely by events of the mid- to late-1990s. These events – including shrinking domestic equity markets, scandals involving perceived mistreatment of shareholders, de-listings of issuers including blue chip companies, ADR voting problems, and the financial sector crisis here in Mexico – created a natural and appropriate impetus for reinforcing shareholder rights.

In Chile, the Enersis scandal showed the potential for expropriation of company value by controlling shareholders in the case of takeovers. The response was a legal reform in which mandatory tender offers were an important component. Argentina and Mexico were next with reforms to their capital markets laws enacted in June 2001. After considerable delay, but thanks to the valiant efforts of the Securities Commission and others in the administration, Brazil's reforms to the corporation law were signed by President Cardoso in November 2001. In the meantime BOVESPA broke new ground with the Novo Mercado initiative. Most recently, in January of this year, Colombia initiated the legal reform process, incorporating key shareholder rights protections in the draft Securities Markets Law now before its congress.

A common element of these legal reforms was that in the end, like most efforts in the political sphere, they were not as far-reaching as originally envisaged. In Chile, Mexico and, most clearly, in Brazil, reformers were not able to secure all that they initially proposed . The remaining gaps in the area of shareholder protection now need to be filled by alternative measures from the securities regulators and by voluntary reform actions undertaken in the private sector. Efforts like Novo Mercado are one promising, although partial, approach that we at IFC have been happy to support.

4.

But legal reforms and shareholder rights are just one part - - even if a very important part - of a long-term response to the challenges of corporate governance facing the region. As in OECD countries and elsewhere, the problem of corporate governance goes well beyond the legal framework for protection of shareholders. That is why the Roundtable did not end with its meeting in Buenos Aires. Good corporate governance, and the benefits to be gained from it, is as much about improving corporate culture as it is about rationalizing laws. Its is as much about efficient and effective management as about shareholder protection. And it is as much about sustainability of the enterprise as it is about access to cheaper capital.

In our view at IFC, the aftermath of the legal reforms in the four largest markets marks the beginning of a *second stage* of corporate governance activism. Rather than focusing almost exclusively on shareholder rights, and by implication companies traded in the public equity markets, there is a growing appreciation that corporate governance matters for all types of companies – and for all types of reasons. We at IFC want to encourage this broadening of focus. Poor corporate governance is an issue that limits the access to capital for private as well as public companies. Importantly for the corporate governance debate, more and more corporate leaders are beginning to realize that improved governance not only lowers the cost of capital, but improves company performance regardless of whether attracting outside capital is an immediate concern.

Another sense in which corporate governance reform is becoming broader is that the public and private sectors are building upon improved legal foundations by turning attention to non-legal reform measures. Last year, Colombia's the securities commission – Supervalores – issued regulations requiring companies to adopt corporate governance codes. Progressive company managers used the opportunity to re-think their governance structures and in many cases to overhaul practices in line with international best practices. Other initiatives undertaken by the private sector include voluntary governance codes written by the private sector for the private sector; director training; investor education and increasing activism; and educating companies that better corporate governance is in their interest as well. This shift to non-legal measures will also mean that the corporate governance debate will become more germane to unlisted, private companies, which are largely outside the realm of capital markets laws.

Of course, this distinction between the "first stage" and the "second stage" is a simplification. On the one hand, there have already been several important non-legal corporate governance developments, especially in Brazil, which has seen the emergence of the corporate governance funds as activist investors, the success of the Brazilian Institute of Corporate Governance and, of course, BOVESPA's Novo Mercado. However, this distinction between the "first stage" and the "second stage" does mark a significant shift in emphasis.

But what does this move from the "first stage" to the more broadly focused "second stage" mean in practical terms? First, it means that the priorities for policy makers and others like those assembled here today should be shifting. Shareholder rights should remain an important primary concern, but we should also be looking at the role and functioning boards of directors, the rights and duties of creditors, stakeholders, and, above all, the absorption by companies of an ethos that effective governance benefits all legitimate interests in the country.

Second, it means that more effort needs to be made to bring in previously under-represented sectors into the corporate governance discussion in a collaborative, non-adversarial fashion. The government, regulators and investors will always play a central role – indeed, they form the "backbone" of this Roundtable – but corporate leaders (managers and directors) must also be engaged. If corporate governance codes are to have any impact, they must be led by the private sector and must be voluntarily implemented by companies. If boards of directors are to become a real value-added asset to the management of companies (in addition to serving as watchdogs of shareholder interests) – as they should be – then director training must be made available to directors of all companies. It is thus very encouraging to see increasing participation by CEOs and board directors in the work of this Roundtable.

Just yesterday afternoon we at the World Bank Group, together with the Global Corporate Governance Forum and OECD, witnessed an encouraging example of this "second stage." Over the past year and a half, institutes of directors have begun to emerge across the region. Following the good example of the Brazilian Institute of Corporate Governance, there are today plans to establish institutes in Argentina, Chile, Colombia, here in Mexico, and undoubtedly elsewhere in the region. The founders of these institutes have made the sensible decision to undertake a wide array of activities, not only director training, but more generally improving understanding of corporate governance issues and lobbying for further reforms. Yesterday they created a regional "network" of institutes, who will share their experiences, resources and training materials. In conjunction with the Global Corporate Governance Forum, the World Bank and IFC are keen to support these fledgling institutes and was happy to act as the facilitator for yesterday's meeting.

5.

Before concluding, I would like to take this opportunity to say a few words about how IFC is helping to broaden the focus of the Latin American corporate governance dialogue. As many of you probably know, IFC is the arm of the World Bank Group that invests in private companies in developing countries. We are convinced that achieving effective governance is a prerequisite for the success and sustainability of the companies in which we invest, be they founder-owned companies, family-controlled concerns, joint ventures or large publicly held corporations. So you will see IFC reinforcing its efforts in the following areas:

- Providing trainings for clients and other entrepreneurs on the nexus between effective management and corporate governance;
- Better integrating IFC's appraisal and supervision practices in corporate governance evaluation and management and sustainability assessment;
- Providing technical assistance to clients to improve their governance in all areas, including board practices, management/board relations and internal controls;
- Selecting and training IFC-nominated directors on the boards of investee companies in corporate governance to ensure that they, and the boards they serve on, not only protect the interests of shareholders, but also add value in areas such as corporate philosophy and strategic direction, succession planning, and long-term financing strategy.

And, of course, we will continue to collaborate with our colleagues in the World Bank's Corporate Governance Unit, the OECD, the IDB, the Global Forum and others, in support of the Roundtable and complementary activities that spread the message and help develop practical approaches for both policy makers and practitioners.

6.

I have already commended the OECD for its vision in developing and carrying out the concept of the regional corporate governance roundtables. Let me conclude by thanking our local hosts and sponsors, who, as in Sao Paolo and Buenos Aires, have been essential to the success of the Roundtable process. This meeting in Mexico would not have been possible without the dedicated work of a team from both the private sector (represented by the Bolsa Mexicana de Valores, who are our generous hosts, and the Consejo Coordinador Empresarial) and the public sector (the Hacienda and CNBV securities commission). Invaluable support was also given by the Asociacion de Banqueros de Mexico, the Asociacion Mexicana de Intermediarios Bursatiles, and the Asociacion de Instituciones Financieras Internacionales. To them all I would like to express our gratitude. And to the rest of this meeting's participants, our confident best wishes for a successful and productive meeting. Thank you.