

**7<sup>th</sup> Annual Development Financial Institution  
Corporate Governance Meeting**

**DFIs and the Enabling Business Environment**

Presentation by

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**Presentation Overview**

- **What is an enabling environment and how is it relevant?**
- **Why is an enabling environment essential to achieving a culture and practice of good corporate governance**
- **What is ADB doing in the area of enabling environment**
- **What DFIs can do / the power of common commitment and a coordinated approach**

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## Enabling Environment

**“The ‘enabling environment’ is a set of interrelated conditions that affect the ability or inclination of market participants to practice good corporate governance.”**

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## Enabling Environment Comprises A Range of Elements

These conditions/factors include:

- Government, Policy and Policy Makers (reflecting culture (*i.e.*, a culture of good governance))
- Laws and Law Making (legislatures)
- Regulation and Regulators (*i.e.*, listing & securities exchange rules)
- Fiscal and technological capacities
- OECD and traditional relationships of Corp.

Governance:

- Company Management
- Boards
- Shareholders & Stakeholders

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## Examining the Enabling Environment:

### Enabling Environment = Holistic Approach:

Looking at the complete system and all aspects in which companies operate

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## Impact of Weak or Ineffective Enabling Environment

- Impairs confidence in public institutions
- Limits financial flows, funding & funding sources
- Discourages foreign investment
- Restricts or discourages national trade
- Restricts or discourages regional trade
- Restricts or discourages regional integration
- Limits development initiatives
- Limits growth
- Hinders economic development and poverty alleviation

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## What is ADB Doing in the Enabling Environment

ADB combines public and private sector investments = loans, grants, guarantees and TA initiatives

Initiatives pursued via partnerships and strategies with DMCs and ADB's 2020 Strategic Plan, through regional departments (RDs) at ADB and by OGC in its LJD Program

- **Public Sector:** facilitates capacity at policy, legislative, regulatory and judge/regulator training levels
- **Private Sector (Private Sector Operations Dept (PSOD)):** takes CG into account in selecting and executing investments and in establishing guidelines for investee companies

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## What is ADB Doing in the Enabling Environment

1. **Regional Focus: ASEAN Scorecard** – Convened Regulators and CG experts from 6 ASEAN countries to create common measures of CG based on international best practices and coordinate the production of regionally recognized leaders in CG through a regional score card.

- Indonesia
- Malaysia
- Philippines
- Singapore
- Thailand
- Vietnam

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## What is ADB Doing in the Enabling Environment

### ASEAN Scorecard (*cont'd*):

- Called upon the ASEAN Capital Markets Forum (ASEAN capital markets regulators represented by their chairs/heads), OECD and Int'l Corp Gov Network (ICGN)
- Objectives
  - To create common benchmarks for region and regional champions
  - To use CG to brand ASEAN companies as an asset class in order to compete for capital flows with regional giants PRC/India
  - to facilitate information sharing and ideas for improvement of CG and the enabling environment

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## What is ADB Doing in the Enabling Environment

### Country Specific Focus

2. **Indonesia:** through program loans and technical assistance: create and launch **The Indonesian Financial Services Authority** or "OJK" a unified financial sector regulator with fiscal and operational independence.
  - OJK will be governed by an independent board of commissioners and will have far greater flexibility to strengthen internal systems and personnel with funding outside of the government's budget process.

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### What is ADB Doing in the Enabling Environment

#### 3. **Vietnam** – TA Proposed to support SMEs Enterprises Development Program:

- Focus on disclosure and transparency (esp. financial information disclosure), as well as instituting internal company governance structures that promote transparency.
- Recommending changes to establish international best practices in corporate governance, and
- Developing a code of corporate governance for the SOE sector.

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### What is ADB Doing in the Enabling Environment

4. **Laos** – TA proposed to assist the Bank of Laos, the Ministry of Finance and the three key commercial banks in the country to develop and enter into governance agreements.
5. **Mongolia** – TA assisted the Bank of Mongolia to develop guidelines for CG reforms for commercial banks, improve CG enforcement and increase public awareness of the need for CG in banking.
6. **Philippines** – TA is assisting the SEC to developed a CG scorecard and a program for expedited processing for companies with good GC.

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## What is ADB Doing in the Enabling Environment

### 7. Law and Development Justice (LDJ) Program – a program where OGC interacts directly with clients to provide technical advisory services – TAs to regulators (securities commissions) and stock exchanges:

- TA on the companies law and securities law of the **People's Republic of China** to develop legal infrastructure to support a market economy
- Good Governance Program for **Bangladesh** – a series of TAs over 4-5 year period including anti-corruption initiatives
- **Mongolia**: “Training Lawyers for a Market Economy” - Training judges, regulators and lawyers in companies laws (including training professionals to train other professionals)
- **Philippines**: TA to Philippines Supreme Court to enhance fiscal and admin autonomy, judicial appointment process and training

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## What Can DFIs Do To Improve Enabling Environment

### *Working Together*

- Coordination of DFIs more consistently and pro-actively to emphasize importance of EE/CG – holistic approach to touch upon all facets of EE, including public institutions – i.e., **policy**, legislation, regulation, judicial/regulatory administration, training and private level – and **corporate level** adaptation of CG culture and link between best practices and better results/outcomes
- Ultimately establish an expanded and more specific joint framework / criteria – set of principles
- Adopt and emphasize EE criteria into investment matrix

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### What Can DFIs Do (cont'd)

- Coordinate policies to encourage public sector to facilitate improved Enabling Environment
- Encourage private sector to adapt best practices at company level – “best practices” in DMCs

*There's strength in numbers*

### Enabling Environment – A Holistic Approach

